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Within the framework of this study, we have been monitoring the development of municipal reform from the moment of the enactment of Federal Law No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation", until mid-year 2006. This paper describes the evolution in approaches to municipal reform at the federal level, analyzes the results of reform of the territorial foundations of local self-government, and discusses the policies of regional authorities in respect of newly formed settlements during the reform's transitional period. Significant emphasis in the study has been placed on the analysis of the experience of implementing municipal reform in Novosibirsk Oblast and Stavropol Krai – the two pilot regions for municipal reform. Tver Oblast is described as an example of the specific features and consequences of reform of the system of financial relations between regions and municipalities.

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Part 1

Introduction

As stipulated in the new municipal legislation adopted in the year 2003, the full-scale implementation of municipal reform was to begin from 1 January 2006. Thus, 2005 was to be the final year of preparation to the full-scale implementation of reform, during which all its prerequisites were to be created. In actual practice, however, the process of implementing the reform in 2005 gave rise to some quite dramatic development. Certain amendments were made to federal legislation during that year, which introduced significant changes not only to the timelines of the new municipal legislation to be enacted, but also to the very ideology of reform. These changes in the general situation also had an impact on our program of research set for the year 2005.

Initially it was intended that, within the project's framework, priority would be given to studying the experiences of the two pilot regions, Stavropolo Krai and Novosibirsk Oblast, where reforming began in 2005, one year earlier than in all the other regions. This was to provide an appropriate basis for generalizing the achieved best practices, as well as for acknowledging some lessons that could be useful for all those regions that were to join the process of reform from 1 January 2006. In addition to these two regions, we planned to study the experience of Tver Oblast in the sphere of interbudgetary relations. This region was added in recognition of the fact that Tver Oblast, where no settlements were created in 2005, was, nevertheless, implementing during that year, by way of a pilot project, the mechanisms of interbudgetary equalization at the level of municipal raions and city okrugs. This experience was to supplement the practices of Novosibirsk Oblast and Stavropol Krai in the financial sphere.

However, the dramatic development of the situation surrounding municipal reform resulted in certain shifts in our study's priorities. The experience accumulated in the pilot regions, while occupying its due place within the study's framework was found to be insufficient under the new

conditions, and other issues needed to be addressed as well. It was necessary to investigate the causal factors that had determined the changes in the timelines and concepts of reform, to weigh the degree of objectivity of each of those factors, to assess the consequences of such decisions and the ways in which they were going to influence the prospects of local self-government's development in Russia. As a result, the study's structure became as follows.

Firstly, we analyzed the results of preparations to municipal reform achieved by mid-2005, when the political crisis around its implementation began to unfold. This analysis primarily addresses the outcome of reform in the territorial organization of local self-government. The changes in this sphere, as envisaged by the new municipal legislation, were to be among the most radical. At the same time, this phase of transformation had, in fact, been already over by the time of the crisis' onset. The issues relating to territorial structure were given particular attention also because, in contrast to some other aspects of reforming, structural changes are usually associated with significant financial and organizational costs, represent a very complex and labour-consuming process, and it is not easy to correct mistakes in this sphere once they have been committed.

Secondly, we analysed in detail the process of preparation to municipal reform in 2005. The causes and consequences of the summer crisis were also analyzed, and it was shown that the initial approach, based on the principle of a single concept of local self-government's reform being consistently implemented from the federal level, had given way to a fundamentally new phase – that of regionalization and compromises with regional authorities. It became obvious that within this phase's framework, the process of preparing and implementing municipal reform was going to develop, in many of its aspects, quite differently from the way it had been envisaged in the previous period.

The changes occurring during the implementation of municipal reform, which became obvious when the legislations of the Federation's subjects in this sphere were analyzed, represented another area of research within our study's framework. Whenever possible, alongside normative-legal acts, we also analyzed the information concerning the

actual transformations going on at the regional level. However, this information is too sketchy and unsystematized to provide a sufficient basis for any final conclusions.

And finally, as has already been mentioned, the experiences of the pilot regions in the sphere of municipal reform were studied. However, under the new conditions, we needed not only to identify appropriate examples of best practices and lessons that might be useful for other regions, but also to understand if, indeed, the available practical experience can serve as proof of the existence of objective reasons for the reform to be delayed, and to assess the degree of objectivity of changes introduced to the conceptual approaches to its implementation.

Thus, our study has made it possible to identify both current and long-term causes of the crisis of municipal reform, as well as provided the grounds for forecasting further developments in the implementation of reform in a situation characterized by regionalization and compromises. And, although this paper offers no specific recommendations concerning any changes to municipal legislation (which, anyway, would make little sense in the present situation, when regulation in this sphere is being influenced primarily by political factors), it does make it possible for us to understand, on the basis of the experiences of certain regions, which mechanisms of interaction between municipal raions and settlements can offer true opportunities for coordinating the interests and improving the performance of municipalities of both levels, and which, on the contrary, may set obstacles to the smooth development of these processes.

Chapter 1. The Implementation of Municipal Reform in 2005

1.1. General Characteristic of the Implementation of Municipal Reform

In accordance with new municipal legislation (Federal Law No. 131-FZ of 6 October 2003), the year 2005 was to become a milestone in the preparation to the large-scale implementation of municipal reform. That period covered the following events:

- the process of determining the borders and status of municipal formations was to be completed (before 1 March 2005);
- the charters of municipal formations and other normative – legal acts issued by bodies of local self-government were to be brought in conformity with new federal legislation (before 1 July 2005);
- the structure of the bodies of local self-government was to be determined, and municipal elections to be held in all newly created municipal formations (before 1 November 2005);
- the processes of the handover, without compensation, of property objects from municipal formations into regional and federal ownership, and from the ownership of the Federation, and that of the Federation's subjects – to municipal formations, were to be implemented in full.

However, in actual practice, the process of preparing municipal reform turned out to be far more dramatic. From this point of view, the period of the year 2005 can be subdivided into several phases.

The first phase, which may arbitrarily be described as evolutionary, took place between January and June 2005. During that period the preparations to implementing Federal Law No. 131-FZ were carried out in accordance with the schedule established by the transitional provisions of that Law. The process of establishing the borders and status of municipal formations was being brought to completion, new municipal charters were being adopted, the structure of the bodies of local self-government

in newly created municipalities was being determined, and municipal elections, after appropriate preparations, were held.

However, as summer came, there appeared some clear signs of an approaching crisis. An amendment was submitted to the State Duma by a group of deputies (the so-called “Grishankov’s Amendment”), which envisaged that the timelines for implementing municipal reform be extended. The period from June through September was that of struggle for determining the ultimate fate of reform between the political champions and the political opponents of this amendment. The amendment was adopted by the State Duma on 21 September 2005 in a somewhat softer version, as compared to the initial one; however, this was, in effect, a victory on the part of the strategy aimed at delaying the implementation of reform.

The last quarter of the year 2005 can be regarded as the phase of regionalization and compromises. That period saw some decisions being taken at the federal level, which considerably watered down the initially rigid provisions of Law No. 31-FZ, and made much more uncertain the mechanisms of its implementation, while the regions were shaping out their own strategies for implementing municipal reform within the framework of the new powers they had been endowed with by Grishankov’s Amendment (Federal Law No. 129-FZ of 12 October 2005).

On the whole, the dramatic events, that were part of the development of municipal reform throughout the year 2005, served as a confirmation of the opinions of those experts who, during the discussion of Law No. 131-FZ, had warned that it was conceptually weak and insufficiently adapted to Russia’s realities. At the same time, the delay in implementing municipal reform cannot be estimated as a positive measure, designed to make it easier in a longer perspective. Setting a longer period for implementing reform cannot, by itself, provide solutions to the serious problems inherent in the reform’s conceptual base. The fact of amendment to federal laws being prepared after the decision has been made that the reform itself is to be delayed do not imply that the ideology of reform has been changed but, rather, that there is no clear ideology any more. This may devalue even those components of its original concept that could have been a true contribution to the development of local self-

government. And finally, the decision concerning the delay of reform can seriously compromise the reputation of both the federal authority, which authored this reform and promoted its active implementation, and local self-government. The creation of a multitude of municipal formations that have do their own elective bodies but are endowed with neither distinct powers nor clearly determined financial resources may result in the institution of local self-government being seriously undermined.

1.2. Phase 1: The Evolutional Process of Preparing Municipal Reform

The study's informational base. In view of later decisions concerning a delay in implementing municipal reform, the analysis of the regions' readiness to its implementation becomes especially significant. Within the framework of our study, the following sources of information were referred to for purposes of estimating the processes going on in the regions.

Firstly, the normative-legal acts adopted by the Federation's subjects concerning the issues of municipal reform were analyzed. The analysis involved all the normative acts available from legal bases that were open to public, which resulted in a sufficiently complete though by no means exhaustive overview of the regions.

Secondly, we made use of the information released by different state bodies on the implementation of municipal reform and published, in particular, in *Analiticheskii vestnik apparata Gosudarstvennoi Dumi* [The Analytical Herald of the State Duma's Apparatus], as well as contained in some departmental documents. In this connection, it should be noted that the data published by different state departments are not always identical, and also are influenced to a certain degree by political factors. Thus, after the decision had been made that municipal reform should be delayed, the degree of the regions' preparedness to its implementation was estimated with far less optimism. However, despite all the aforesaid limitations, this information does have the merit of providing a comprehensive coverage of the situation across the country, and so it becomes possible to assess the general trends and results of the preparations to a full-scale implementation of Federal Law No. 131-FZ.

Thirdly, a significant body of specific information was obtained from unofficial sources, e. g. the websites of municipal organizations, materials published in the mass media, etc. Thus, we applied the data taken from the websites of the Union of Russian Towns, the Association of Siberian and Far-East Towns, the Centre for Legal Support of Municipal Formations, the newspaper *Mestnoe samoupravlenie* [“Local Self-Government”], the journals *Munitsipal’naia vlast’* [“Municipal Authority”], *Munitsipal’noe pravo* [“Municipal Law”], *Gorodskoe upravleniie* [“Urban Administration”], etc.

And fourthly, some information was collected by the authors directly during their municipal surveys in a number of Russian regions, e. g. Kaluga Oblast, Tver Oblast, Vologda Oblast, the Republic of Chuvashia, Cheliabinsk Oblast, Kaliningrad Oblast.

Normative-legal regulation. Within this period’s framework, the law-making process was developing actively enough, and the draft normative acts prepared in the first half-year 2005 were being adopted throughout the summer (particularly during June and July). The changes in the normative-legal base pertaining to the sphere of local self-government mainly involved the following two areas.

Firstly, certain changes were introduced into normative-legal regulation that had been envisaged in Law No. 131-FZ, the RF Government’s plan for preparing legal acts necessary for the implementation of municipal reform¹. Thus, in July 2005, Federal Law No. 97-FZ, “On State Registration of the charters of municipal formations”, was prepared and adopted, to enter into legal force from 1 September 2005.

Legislation of the Russian Federation on elections was adjusted, including the following aspects:

- the status of elective officials within local self-government was determined more precisely;
- the possibility of applying either a mixed or a proportional system to the organization of municipal elections was established;
- a new status (a municipal body, which is not incorporated into the structure of bodies of local self-government) and a procedure for

¹ Regulation of the RF Government of 3 March 2004, No. 307-r.

forming the electoral boards of municipal formations were established.

In this connection, appropriate changes were introduced to Federal Law “On the mass media”, the Criminal Code of the RF, the Tax Code of the RF, the RF Code of Administrative Violations, the RF Code of Civil Procedure, as well as to the Federal Law “On ensuring the constitutional rights of citizens of the RF to elect and be elected to bodies of local self-government” and to a number of other legislative acts.

Secondly, the introduction of amendments was due to the discussions then going on during that period with regard to the possibility of changing the mechanisms of electing the heads of municipal formations, similar to the changes made to the mechanisms of governor elections, that is, the possibility of a switchover to such a system where the head of a municipal formation was to be elected by the representative body of local self-government on a governor’s recommendation. The principle of division of state power and local self-government, which was consolidated in the RF Constitutions (the bodies of local self-government were not part of the system of bodies of state authority), made it impossible to implement such a mechanism directly. However, certain steps were taken in the direction of strengthening the influence of regional authorities on the composition of local self-governments.

Thus, on 8 April 2005, certain amendments were made to Article 85 of the Law (i. e., to the transitional provisions), whereby it was envisaged that in an event of the head of a municipal raion administration or a city okrug being employed on the basis of a contract, the proportion of members in the contest board to be formed by a regional authority was to be increased from one-third to one half. In respect to newly created municipal formations, if the structure of bodies of local self-government had not been determined at a local referendum or a citizen’s meeting, regional bodies of state authority were now granted the right to establish, by their own law, the procedure for electing the heads of the newly created municipal formations for their first term of office, as well as to determine the status of these officials within the structure of local self-government.

The changes made to electoral legislation were also aimed at strengthening “the vertical of power”. These resulted in the electoral board being excluded from the structure of bodies of local self-government within a municipal formation, while the participation of the electoral board of the Federation’s subject in the creation of the electoral boards of municipal raions and okrugs, and that of raion the electoral board – in the creation of the electoral boards of settlements, was legally consolidated.

Reform of the territorial organization of local self-government. The delay in reforming the territorial organization of local self-government until 1 March 2005 made it possible for the majority of regions to complete this process in general, within the framework established by legislation. The borders and status of municipal formations were determined by this deadline in all RF subjects, with the exception of the Republic of Chechnia and the Republic of Ingushetia. However, in some regions the territorial structure was still being adjusted at later stages. This, in particular, was occurring under the influence of court decisions. Judicial trials concerning the issues of territorial organization took place in several subjects of the Federation – Vladimir Oblast, Kaliningrad Oblast, Yaroslavl Oblast, Sakhalin Oblast, and some other. These cases mainly involved the deprivation of rural settlements of their right to local self-government (as a result of city okrugs having been created on the basis of rural raions), as well as the struggle of towns for the right to enjoy the status of a city okrug, instead of that of an urban settlement.

In some regions it became possible to resolve issues of a similar nature in a pre-judicial procedure. Thus, for example, the initial draft law on territorial organization in Orenburg Oblast envisaged that city okrugs be created on the basis of raions. However, as a result of active opposition on the part of the association of municipal formations, the draft law was radically rewritten, and in its final version it was stipulated that a two-tier structure of local self-government was to be formed in the Oblast’s territory.

According to the information provided by the Central Electoral Commission (CEC) as of May 2005, a total of approximately 12,000 new municipal formations were created, and of these, approximately 10,000 were rural settlements. The subordination of municipal raions to the newly cre-

ated municipal formations was due mainly to the incorporation of some previously administratively independent towns into their structure; the subordination of city okrugs to the newly created municipal formations occurred primarily when additional rural territories were incorporated into their structure. As of 1 October 2005, the RF Ministry for Regional Development estimated the number of newly created municipalities as being equal to 13,000. Thereby the number of municipal formations in the Russian Federation grew more than twofold, and 83% of these were represented by rural settlements.

This increase in the number of municipal formations appears very substantial; however, it is, in fact, far smaller than the numbers forecasted by some experts, who had expected the possibility of a much more impressive growth in the number of municipalities – up to fivefold. Among the main factors responsible for the smaller number of new municipal formations as compared to the forecasts, the following can be pointed out.

- 1) There was a dramatic fall in the number of newly created municipal formations, as compared to the previously existing number of submunicipal structures in some regions, where prior to reform the raion-based model had existed. Thus, in 9 regions this reduction amounted to between 40% and 70%. In the majority of the regions it was limited to 10–20%. The total number of newly created settlements turned out to be lower approximately by one quarter than that of the previously existing submunicipal structures. This happened both due to the mergers of submunicipal structures during the creation of rural settlements and to the incorporation of some rural territories into urban settlements and city okrugs. As for those regions where the municipalities at the settlement level had been created before the onset of municipal reform, the number of settlements there, with a few exceptions, remained unchanged.
- 2) The creation, in some regions, of urban okrugs based on rural raions, which, in fact, resulted in the preservation of the previously existing one-tier model of the territorial organization of local self-government. This approach has been predominant in three RF subjects, and is, in part, being applied in several other subjects. It should be noted that, despite the adoption of amendments to Law No.131-FZ

in 2004, which introduced a stricter approach to establishing the borders of city okrugs, this model was not met with adequate opposition at the federal level. Therefore, the two-tier model in these RF subjects is being implemented only in some territories, where single settlements are created.

The formation of a system of bodies of local self-government. The process of creating the bodies of local self-government has also been developing with sufficient intensity. By June 2005, municipal elections had already been held in more than 20 RF subjects (according to different sources, these data vary), and were called in a greater majority of others. The core political issue in this sphere is governed by the necessity to make a choice between the three available models for determining the position of the head of a municipal formation within the system of the bodies of local self-government. In accordance with Law No. 131-FZ, the head of a municipal formation may be entitled to the following:

- be elected at a municipal election and to head the local administration;
- be elected at a municipal election and to head the representative body of a municipal formation;
- be elected from the body of deputies and to head the representative body of a municipal formation.

The solutions to this problem were different in various regions and in some municipal formations. Thus, according to the RF Ministry for Regional Development, in 27 RF subjects the heads of municipal formations are elected only at municipal elections, while on the whole across Russia the percentage of heads elected by the population is higher than 60%. Nevertheless, according to the estimations provided by the same source, the heads of municipal formations will actually head local administration only in 35% of municipal formations, or in 65% of municipalities. The head of a local administration will be employed on the basis of a contract. Often such a decision was the result of an independent choice on the part of a municipality, e. g. in an event of the presence there of several conflicting “groups of interests”, for whom it was important that the head of administration be a person suitable for all, rather than an advocate of one of the groups. However, there exist known cases when serious political

pressure was exerted in favour of this model, it being the one most consistent with the idea of strengthening “the vertical of power”, quite often despite the opinion to the contrary being expressed by local communities.

One most vivid example is represented by the situation in Obninsk. The City Assembly there adopted the decision that the structure of the bodies of local self-government and the procedure of election of the head of that municipal formation should be changed, although the formerly existing structure, envisaging a direct election of the city’s head, had been established by a city referendum. In protest against such a decision the city mayor resigned from his post, while a group of citizens filed a petition with a court of justice that this decision was against the law. This confrontation between the city’s representative body and its own electorate continued, with intermittent success, throughout the whole year, and no final decision has been achieved as yet in respect to this issue.

As for the newly created settlements, most of the laws adopted by the Federation’s subjects established there the model envisaging that heads of administrations be employed on the basis of a contract. This model which, in fact, resulted in the coexistence within a settlement of two top officials, was still being chosen despite the lack of appropriate cadres in such municipal formations.

Summary of the results of the evolutionary phase. In terms of a general assessment of the outcome of the evolutionary phase, it can be stated that the situation, as it had emerged by the summer of 2005, appeared rather controversial.

On the one hand, the vast majority of regions were active in their preparation to a large-scale implementation of Law No. 131-FZ, being generally guided by the schedule established by the Law’s transitory provisions. From a formal point of view, this process was developing with a sufficient degree of success, although not without rather numerous conflicts. The possibility for the model of municipal reform to be implemented in principle was generally demonstrated also by those regions where, by way of experiment, many mechanisms envisaged by Law No. 131-FZ had been implemented since 2005.

On the other hand, alongside the realization of the reform, certain objective and subjective problems and difficulties had been accumulating, which gave rise to doubts as to the very possibility of a full-scale implementation of Law No. 131-FZ from the year 2006 onward. On the whole, these difficulties were quite predictable; however, they had not been given due attention when the mechanisms for implementing municipal reform were being elaborated. The piling up of conflicts and problems associated with the preparations for municipal reform, as this process was unfolding, produced the acute crisis that culminated in the summer of 2005.

1.3. Origins of the Crisis of Municipal Reform

When one starts discussing those difficulties associated with the implementation of municipal reform that had become evident by mid-2005, usually the following, quite obvious factors are pointed out:

- insufficient legal backing for the reform – thus, the RF Government did not approve, within the timelines specified in the transitory provisions of Law No. 131-FZ, the procedure for redistributing property between the Russian Federation, subjects of the Russian Federation, and municipal formations, as well as the procedure for dividing municipal property between municipal raions, settlements and city okrugs;
- incorrect distribution of sources of revenues between different levels of authority, which makes it impossible to provide adequate financial backing to municipal formations, so as to enable them to solve problems of local importance;
- the deficit of qualified cadres, as well as of material and financial backing for the solutions to problems of local importance in newly created rural settlements;
- the risks associated with the parallel implementation of municipal reform and other reforms – tax reform (in the part pertaining to the land tax), housing reform, etc.;
- the lack of preparedness of some institutional mechanisms referred to in Law No. 131-FZ – for example, the absence of registration of municipal property, incompleteness of land reform, lack of preparedness

of tax agencies to work with the municipalities at the level of settlements, etc.

If the difficulties encountered while implementing municipal reform are to be viewed within such a context, then, indeed, it would seem that most of them will become either less prominent or disappear altogether. Therefore, extending the period of reform implementation would appear to be a well-justified strategy. However, in reality such a view can only develop on the basis of a superficial analysis, which lacks any profound insights. In fact, many of these superficial problems reflect deeper-lying ones, arising from the lack of sufficiently elaborated conceptual provisions in Law No. 131-FZ, which, besides, are not adaptable enough to the long-existing institutional limitations characteristic of Russian society.

Thus, it is far from obvious that the rigid limitations imposed by insufficient financial support and inadequate cadres, revealed in many settlements, are of a short-lived and transient character. It is quite possible that they reflect the futility of any attempts to spread the two-tier system of the territorial organization and local self-government onto the whole of Russia's territory, which, in effect, represents one of the core elements in the concept of municipal reform. Under conditions of inevitable changes in the population distribution system, associated with the prospects of further migration of the population from depressed territories to the economically developing ones (the so-called growth points), the strengthening of the development potential of some settlements may be achieved at the expense of others, which will become weaker or even totally depopulated. Thus, for some of municipal formations the presently evident problems, instead of becoming less acute, may, with time, become even more pronounced. This intrinsically objective process was not given due regard when the concept of municipal reform was being developed.

In general, the widespread local self-government across a nation's territory is typical mostly of the rather compact and densely populated European countries. The situation in countries with vast territories and unevenly distributed population density may be fundamentally different. Thus, for example, in British Columbia (a Canadian province) municipal

formations have been created only on 1% of its territory. Obviously, the limitations arising here are primarily the characteristic of the settlement-type municipalities, because territorial structures, when sufficiently large, are quite well-suited to providing municipal services on territories with low population density.

Conceptual flaws are becoming even more evident when we look at the financial mechanisms envisaged as part of reform of local self-government. The possibility of providing, within the framework of these mechanisms, a considerable percentage of municipal formations with adequate sources of self-financing has been illusory from the very start.

Municipalities have been guaranteed two main sources of revenues – local taxes and deductions from federal taxes and levies. At the same time, the number of local taxes is limited to two – the personal property tax and the land tax, both of these being consolidated to the settlement level. Their share in the total revenues of a municipal formation is not high. The independence of municipal formations in imposing these taxes is severely restricted – at the federal level, the limits for changing the rates of taxes are established, and there exists a long list of tax exemptions. Besides, the methods applied in the estimation of the tax bases for these taxes have serious shortcomings, which are impossible to correct at the local level. At the level of municipal raions it may be possible to regulate certain parameters of the tax on presumptive income – the special tax regime established for small-size businesses; however, this cannot have any significant influence on the amount of revenues.

As for deductions from federal taxes and levies, their role can be of any importance only in those municipalities where the tax bases are sufficiently well-developed, which is the case, primarily, of big cities, – given the existing conditions of extremely uneven economic development of different municipal formations. If the problems faced by the majority of municipal formations are to be solved by an attempt to introduce, at the federal level, a uniform system of normative deductions, marked disproportions will inevitably arise, because the municipalities which are financially well-provided will enjoy substantial additional revenues, and this, in its turn, will limit the opportunities available for their financial equalization with the municipal formations where the financial

situation is less favorable. A similar situation will develop if single deduction normatives are established at the regional level. In this connection, some preliminary estimates have demonstrated that the mechanism of negative transfers, while diminishing incentives for increasing tax base in municipal formations with higher financial resources, still cannot provide an adequate solution to this problem.

Thus, the financial mechanism introduced within the framework of reform has failed to provide the main bulk of the existing municipalities with substantial revenues of their own. Accordingly, it was initially intended that financial aid would be playing an important part in the financing of the majority of municipal formations.

In order to ensure that a significant part of municipalities would be able to exist without receiving dotations, the financial system had to be built primarily on the basis of local taxes, thus making it possible to flexibly adjust budget revenues to the level of necessary expenditures. In this connection, the rights of municipal formations to regulate their local taxes could have been considerable extended, by abolishing any limitations of the regulation of the rates of taxes and, possibly, to allow them to influence certain parameters of tax bases. Such a mechanism for financing municipal formations does exist – for example, in Canada, where the share of provincial grants in the revenues of local budget went down, on the whole, from 45.7% in 1990 to 17.9% in 2000. The principal tax revenue is generated by the real estate tax, which constitutes approximately one-half of the Canadian municipalities' total budget revenues. In most provinces, the rate of this tax is determined independently by municipal formations.

However, it is quite obvious that this type of reform, if implemented in Russia, would have been fraught with serious political problems. It would have resulted in marked differentiation in the levels of taxation in different municipal formations, and moreover, the need for higher taxes would have arisen in municipalities with a limited economic base, where the population's living standards are already quite low. Besides, the differentiation in the provision of municipal services would have become even greater, and this outcome would hardly have been praised as a socially acceptable solution by a nation with the already existing dramatic

social contrasts. Therefore, in face of certain quite objective limitations, the suggested general model for financing municipal formations appears, in many of its aspects, to have no alternatives, and so the existing financial mechanisms will have to be improved within its framework.

The widespread dissatisfaction with the financial mechanisms being introduced in the course of municipal reform can be explained by the reform's yet another intrinsic conceptual contradiction. The rather rigid regulation of the list of issues of local importance and the territorial foundations of local self-government was aggravated by the absence of any adequate guarantees of financial support to local budgets. At the same time, if the State does determine the territorial borders and powers of a municipal formation, it would be only logical if it also assumes certain obligations in respect to the financial backing of such powers. However, no such obligations have been envisaged in legislation. The Federation's subjects are to determine on their own the volume of funds they are prepared to allocate to financial aid and co-financing of the expenditures of municipal formations. As far as the issues of local importance are concerned, municipal standards and normatives for financing expenditures are to be established at local levels on the basis of existing budget constraints. Thus, legislation does provide an opportunity for the levels of municipal services to be considerably varied in different regions, as well as within the framework of a single RF subject.

This liberal approach to organizing the system of financing municipal formations is in rather poor agreement with centralized detailed regulation of other aspects of the operation of municipal formations. If the main emphasis is to be placed upon the municipalities' interest in increasing their own revenues and optimizing expenditures, then the State must grant to municipal formations a sufficient degree of freedom in determining either their own sphere of competence, or their territory (which appears to be more preferable). In absence of such freedom, the conflict between the regulation of the mechanisms of financing municipal formations and other aspects of their functioning can take rather acute forms.

Therefore, here too, the financial problems faced by municipal formations cannot be regarded as temporary – they have their origin in

the very concept of reform. The rigid, unification-oriented model of determining the territories and powers of municipalities does increase (and will be further increasing in future) the tendency to sponge on the central authorities when it comes to the matters relating to the financing of municipal formations, and will also cause the revival of approaches based on financial guarantees being granted on the basis of “single social standards” and other paternalistic mechanisms formerly applied in this sphere, which is contrary to the approaches envisaged as part of reform.

And finally, the delay in introducing federal regulation in respect to the issue of reimbursable property redistribution between different levels of authority was caused not only by inadequate performance of federal officials, but also by this process’ political complexity and conflictability. Thus, in the sphere of public health care system, the division of powers between different levels of authority in respect to primary and specialized medical care has greatly complicated the issues of property redistribution, because these types of care are usually provided by one and the same medical institution. As for the concentration of all forms of social security and social protection of the population at the regional level, this has required that those objects that have been constructed with the population’s active participation and with the attraction of its private funds should also be withdrawn from municipal ownership. On the whole, it is by no means obvious that the mechanism of property transfer without compensation can be adequately built into the legal structure of property relations, as it has been adopted in Russia.

Thus, while some of the problems that have emerged in course of the implementation of municipal reform may, probably, become somewhat less acute in the future, this can hardly be said in respect to all the issues that have been raised. The majority of these problems are here to stay, and some may become even more severe. It is obvious that the system’s adaptation to the new conditions of its functioning will inevitably involve certain specific alterations to be made in the conceptual base of municipal reform.

At the same time, the “responsibility” for the delay in municipal reform cannot rest with objective factors alone – be they just the relatively shortlived problems typical of the transition period, or the

profound conceptual flaws of reform as such. Evidently, the political interests of regional elites have played an important role in such a decision having been initiated. While Law No. 131-FZ was being enacted, in a situation of a considerable political pressure from the federal center, regional elites abstained from openly expressing any objections against new municipal legislation. However, this legislation was, in many of its aspects, contrary to their interests, because it was aimed at decentralization of budget resources and property and the appearance of new subjects in the political process, whose presence would have been taken into account when implementing regional policy. Particularly acutely these problems were felt in those regions where settlements were to receive certain valuable resources, especially expensive land plots capable of generating large amounts of the land tax. Thus, the trend of slowing-down the reforming arose not only because of technical difficulties, but was also promoted by political interests.

1.4. Phase 2: the Crisis of Municipal Reform

The issue of the ultimate fate of municipal reform has been raised in connection with the submitting to the State Duma, in early June, of the so-called “Grishankov’s Amendment”, which was later supported also by a group of 23 deputies from the United Russia party. This amendment envisaged that reform be delayed until 1 January 2009. Despite the rather active opposition of some deputies, as well as the ambiguous standpoint of the RF President’s Administration as regards this issue, the amendment, is a somewhat moderate version, was approved on 21 September 2005 both in the second and third readings.

The introduced amendment to Law No. 131-FZ envisaged that the transition period was to last until 1 January 2009. At the same time, the provisions of Law No. 131-FZ in the part not relative to the powers and budgets of newly created settlements were to be applied from 1 January 2006. As for the newly created settlements, the procedure for their decision-making concerning issues of local importance throughout the period of transition was to be determined, on an annual basis, by laws issued by RF subjects. This implied that the decision-making on the local importance issues in newly created urban and rural settlements was to be

partly, or even in full, delegated to municipal raions. In this connection, the sources of revenue assigned to these settlements (including local taxes – the land tax and the personal property tax) can be entered in the raion budget. In the latter case, the settlement's revenues and expenditures may become part of the municipal raion's budget, that is, the financing of settlements may be done by estimate.

Besides, significant changes were introduced to the mechanisms of financial equalization. Initially, it had been envisaged in Law No. 131-FZ and in the amendments to the RF Budget Code that the dotations to municipal raions and city okrugs, as well as those to settlements, were to be allocated primarily for purposes of equalizing the sizes of their budget funds. Only a certain limited and continually diminishing part of the dotations could still be allocated for purposes of bridging the gap between the actual or forecasted revenues and expenditures. In accordance with the latest amendments, in respect to settlements, the whole amount of dotations throughout the transition period may be distributed by applying the parameters of actual or forecasted revenues and expenditures. In respect to municipal raions and city okrugs, where the respective share was to be diminished from 40% in 2006 to 20% in 2008, a new scale was introduced: in 2006, 100% of dotations from the Regional Fund for the Financial Support could be allocated by applying the parameters of actual or forecasted revenues and expenditures, in 2007 – 80%, and in 2008 – 50%.

The stipulation in Law No. 131-FZ concerning the transfer of property without compensation was still preserved; however, the timeline for the transfer was extended until 1 January 2008. During the transition period, until the registration of the the rights of ownership in respect to such property, the state authorities of an appropriate level were to enjoy the right to use that property, without any compensation, for purposes of executing their powers.

Certain other changes, somewhat less important, were also made to the transitional provisions stipulated in Law No. 131-FZ.

An analysis of these amendments has shown that they may have a profound impact on the rate of implementation, the direction and the conditions of implementing municipal reform.

Firstly, the ideology of reform has undergone significant changes as regards the correlation between the decisions made by the Federation and the Federation's subjects in respect to its implementation. Law No. 131-FZ envisaged that all the principal parameters of reform, including preparatory measures, were to be determined by federal legislation. The degree of freedom of the Federation's subjects was greatly limited. Resulting from the aforesaid amendments, in the next three years, at least, it is the decisions made at the regional level concerning the distribution of powers between municipal raions and settlements, as well as the implementation of new mechanisms for financial equalization, that will be the decisive factor.

Secondly, the more moderate conditions and the extended timelines for the transition to a new system of financial equalization, which will be applied not only to settlements, but also to municipal raions and city okrugs, must inevitably result in municipal formations becoming less interested in implementing measures designed to ensure better cost-effectiveness of budget expenditures and, in particular, the restructuring of the budget network. Such measures can have a particularly negative impact if the municipal community views them not as those aimed at allowing more time for municipal formations to optimize their budget expenditures (which, on the whole, is recognized as well-justified), but simply as a demonstration of a lack of confidence in the correctness of the conceptual approaches declared within the framework of municipal reform, which are being applied in this sphere.

Thirdly, the inevitably conflicting relations between settlements and municipal raions within a two-tier system may become even more problematic in a situation when elective authority is formed at the level of settlements in order to act in the voters' interests but, in effect, is powerless to do anything, because most of the powers and sources of revenues are consolidated to municipal raions. The experience of regions, which used to be in a similar position prior to reform, is the proof of the substantial costs associated with this model of municipal administration. The presence of elective authority at the level of settlements has fundamentally changed the situation, as compared to the raion-based model typically existing in the majority of regions prior to municipal reform, – even

if the powers of settlements will be reduced to those formerly granted to village councils, volosts and other submunicipal structures, which did not enjoy the status of municipal formations, while their financing will be done by estimate.

1.5. Phase 3: Regionalization and Compromises

After the adoption of amendments to legislation on local self-government, regional authorities now have at hand a sufficiently wide range of available policies in respect to newly created municipal formations. Several basic models can be pointed out here, which provide different solutions to the problems associated with the issues of powers and financing of municipal formations:

- newly created settlements deal with the whole list of issues of local importance envisaged in Law No. 131-FZ, draw up and execute their own budgets;
- some of the local importance issues in newly created settlements are delegated to the level of municipal raions; the settlements, however, have their own budgets;
- some of the local importance issues in newly created settlements are delegated to the level of municipal raions, while the settlements are financed by estimate;
- practically all the local importance issues in newly created settlements are delegated to the level of municipal raions, while the settlements are financed by estimate;
- within one region, different models are applied to different groups of newly created settlements.

Differentiation has also become possible when determining the list of sources of revenues to be consolidated to newly created settlements in the case when they have their own budgets.

According to the available information, a reasonably large number of the regions (46) have been fully implementing Law No. 131-FZ since 1 January 2006. However, only 16 of these have, indeed, delegated the whole range of powers envisaged in legislation to the settlement level and

provided for the formation of local budgets at the level of settlements². At the same time, it appears that the differences between those regions that have declared that they are intending to implement Law No. 131-FZ in full, and the other regions, are not going to be so great in the majority of cases.

As far as issues of local importance are concerned, while in those RF subjects where the implementation of the Law will be delayed the list of these issues is regulated by regional legislation, in the regions where its full-scale implementation was declared the same purpose may be achieved by applying, on a mass scale, the procedure of delegating the powers of settlements to municipal raions. This instrument was initially envisaged in Law No. 131-FZ. Under existing conditions it enables the bodies of local self-government of a municipal raion to independently determine the volumes of powers to be left at the level of settlements and to be centralized at the raion level. That is, the regulation of this issue is actually effectuated not at the regional but at the raion level. Moreover, agreements may be applied in order to extend the regime envisaged in legislation only for newly created settlements to all municipal formations at the settlement level.

The decision that it can be possible to allocate dotations to settlements in order to enable them to finance the difference between the actual (of forecasted) revenues and expenditures has made the difference between the budget-based and estimate-based financing not so striking as it happens in the case of the equalization of budget sufficiency. In such a situation, irrespective of any formal consolidation of revenue sources to the budgets of settlements, the revenues and expenditures of these budgets are actually planned at a higher level (that of a raion or a RF subject). The real financial independence of settlements, even if they do have their own budgets, in such a model is minimal.

Alongside the processes of reform regionalization, late 2005 was characterized by the introduction of sufficiently important changes into the conceptual base of reform at the federal level. Most probably, the in-

² Minutes of the speech by S. N. Samoilov, Adviser to the RF President, at the parliament hearings on the problems of legislative regulation of the judicial protection of the rights of local self-government in the Russian Federation, 25 April 2006.

terconnection of the problems that had caused reform's crisis not only with transient factors but also with its basic conceptual provisions had been acknowledged and estimated, and the federal authorities began to look for appropriate solutions. The most important step in that direction was the adoption of **Law No. 199-FZ** of 31 December 2005 "On introducing changes to certain legislative acts of the Russian Federation in connection with the improvement of the division of powers". One can note the following ways in which the concept of reform was changed by this law.

Firstly, one of the basic provisions in the concept of municipal reform had been the precise division of issues of local importance between two levels of municipal formations – municipal raions and settlements. Law No. 199-FZ, while formally preserving this principle, in effect resulted in this division becoming far less distinct.

Thus, in accordance with this Law, in the discretion of settlements there remained (or were additionally consolidated) such issues of local importance as the organization of library services to the population; the creation of appropriate conditions for the organization of leisure and the provision of the residents of a settlement with the services of cultural organizations, for the development of physical culture and mass-scale sports, for the development of local traditional folk arts and creativity; the promotion of the development of agricultural production; the organization and conduct of events involving children and young people. At the same time, to the level of municipal raions such issues of local importance were added as the organization of library services to the population *by intersettlement libraries*, the organization and conduct of events *of intersettlement character* involving children and young people, as well *the creation of appropriate conditions for providing settlements that are part of a municipal raion* with services aimed at the organization of leisure and the services of cultural organizations; *the creation of appropriate conditions* for the development of local traditional folk arts and creativity, for the promotion of the development of agricultural production at *settlements that are part of a municipal raion; the provision of appropriate conditions for the development, in the territory of a municipal raion*, of physical culture and mass-scale sports, etc.

It is obvious that while, for example, in the case of library services provided to the population the distinction can still be made between inter-settlement and settlement libraries (although no such distinction is made in legislation), in respect to a majority of other issues of local importance it becomes impossible to divide, with a certain degree of precision, the powers of a raion and those of its settlements.

Secondly, the uncertainty as to the division of powers leads to questions concerning one more conceptual provision of municipal reform – that property must follow a power. Inevitably, in a situation of uncertainty in the issues of division of powers, the issue of property division between the raion and settlement levels is becoming increasingly more vague. In other words, in actual practice this issue is going to become more and more politicized, although Law No. 199-FZ has strived to establish a definite procedure for the interaction between different related parties. Inconsistence in the relations between powers and property reveals itself also in the fact that the list of those property objects that may be owned by municipal formations in accordance with Article 50 of Law No. 131-FZ has not been extended in response to the assignation of new issues of local importance to municipal raions and settlements, as specified by Law No. 199-FZ.

Thirdly, the initial concept of reform was built upon a distinct division between the issues of local importance and the delegated state powers, from the point of view of sources of financing, degrees of freedom in providing solutions to certain problems, etc. Law No. 199-FZ moderated this initial conceptual rigidity of this issue, as it had been treated in municipal legislation, by establishing that in certain cases envisaged by legislation, municipal formations still may execute those state powers that had not been delegated to them - that is to say, on the basis of their initiative. As for bodies of local self-government, Law No. 199-FZ granted to them the right to introduce additional measures of social support and social aid to certain categories of citizens, irrespective of the actual presence, in federal laws, of any provisions establishing that right.

In Law No. 199-FZ, some additional measures were also provisioned so as to simplify the initially designed mechanisms for the implementation of municipal reform; in particular, the requirements to the registra-

tion of municipal property were made less rigid. At the same time, the introduction, very late in the year 2005, of amendments to the basic laws regulating the division of powers, which were to come in force from 1 January 2006, inevitably resulted in an additional degree of disorganization in implementing municipal reform and further aggravated the problem of insufficient financial backing for municipal powers

On the whole, the changes introduced by Law No. 199-FZ to the concept of municipal reform cannot be unambiguously characterized. On the one hand, they have originated from the actual practical need to lessen those obvious contradictions and discrepancies which the enactment of Law No. 131-FZ has given rise to. However, on the other, they represented a significant departure from the consistent implementation of a certain concept toward rather chaotic and conceptually untested measures induced by certain groups of interests, which can result only in further complications in the implementation of reform at later stages. In fact, reform's strategy was altered not as a consequence of its intrinsic contradictions having been understood and the conceptual base of the transformations as such corrected, but as a response to some immediate problems, without analyzing the ways such changes may influence reform's general logic.

One more important factor influencing the legal space within the framework of which municipal reform is being implemented, has become the enactment of **Law No. 198-FZ** of 27 December 2005, introducing changes to the RF Budget Code. These amendments to the Budget Code have been discussed for a rather long period of time, and so this law has no direct bearing on the delay in the implementation of municipal reform, although the suggested changes were to take place mainly between 2006 and 2008. The resulting amendments are primarily a reflection of the discussions that have been going on with regard to two fundamental issues of interbudgetary relations, whose importance goes beyond the three-year transition period.

On the one hand, those regions that incorporate the financially best-provided municipal formations did not like the "too liberal" approach to establishing negative transfers. The Budget Code envisaged the possibility of introducing this type of transfers only for those municipal forma-

tions whose level of budget sufficiency was more than two times higher than the average level across a given RF subject, and no more than 50% of this excess amount could be withdrawn. The new amendments lowered the threshold for negative transfers to 1.3 of the average level of budget sufficiency of a RF subject, while leaving the maximum withdrawal level at 50%, as previously. The latter decision is extremely important, because during the discussion it had been intended to raise this level to 75%, or even to 100%, which would have had a very negative effect on the incentives to increase the tax base in such municipal formations.

On the other hand, an issue was raised as to the motivation for growth of budget revenues in those municipal formations which were recipients of financial aid. The possibility of financial aid being annually replaced by normative deductions from the income tax, which was envisaged in the Budget Code, provided no solution to the problem. As a result, the proposal was put forth that the Federation's subjects should be granted the right to consolidate to municipal formations, by agreement with them and for a medium-term perspective, the normative deductions from any taxes being transferred to the regional budget, which were to be treated as financial aid. While the first part of this proposal – that the range of revenue sources, the deductions from which could be consolidated to municipal formations as financial aid, should be extended – was fully reflected in the adopted amendments, the issue concerning the possibility of consolidating tax deductions for a period of more than one year remained unsettled. It was established in legislative terms that normative deductions were to be consolidated for a period of no less than one year, but the amendments contain no other additional explanations. Thus, the possibility of creating incentives for municipalities – recipients of financial aid to increase their tax bases – remained questionable.

While these amendments were being discussed, a proposal was voiced concerning the implementation of contractual mechanisms when establishing differentiated normative tax deductions for the medium term, which would have made it possible, at least in part, to eliminate the lack of objectivity in calculating the normative rates either on the part of the region or the municipal raion. However, this mechanism was not included in the law's final version, although it was envisaged that the establish-

ment of such normatives should be coordinated with the representative bodies of municipal formations.

The new law also touched upon a number of other issues relating to budget control, the granting of powers to municipal raions for the financial equalization of settlements, etc.

1.6. Conclusions

By way of summing-up, the following important trends that emerged in 2005 and will be having a strong influence of further development of municipal reform can be pointed out:

- the regionalization of municipal reform, significant regional differences alongside the intention of many regions to create the impression in the eyes of the federal center as to a full-scale implementation of reform;
- the deviation from the conceptual foundation of municipal reform at the federal level, reform's adaptation both to existing practical needs and to the lobbying by the regions;
- the striving of the federal center to provide municipal formations with more adequate financing of their powers, which will be constantly plagued by the limitations inherent in the selected concept of municipal reform.

In a situation when the framework for implementing municipal reform is undergoing significant changes, the study of the following issues becomes especially important.

Firstly, it is the analysis of the results of the evolutionary phase of municipal reform, which in effect was developing from the moment of the adoption of Law No. 131-FZ "On the general principles of organizing local self-government in the Russian Federation" and until mid-2005. This analysis has made it possible to demonstrate just how favorable the conditions are that have been created in different regions for implementing municipal reform; which forms regionalization was taking, even within the framework of a single legal space; which problems will inevitably emerge, no matter which variant of preparing to reform has been applied, and which are associated with the specific activity of authorities in a given region.

Secondly, it is the study of the experience of those regions which began to implement some or other aspects of municipal reform in 2005. However, the review of experiences under the new conditions must play a different role from that which would have been appropriate within the framework of an uninterrupted evolutionary process of preparing for municipal reform. In the previously existing situation the most important goal was to identify those examples of best practices which could be implemented in other regions beginning in the year 2006, and to determine those “sensitive points” which require further elaboration or changes to legislation in this sphere. At the moment, in addition to the aforesaid goals, it has become no less important to understand the degree to which the crisis in the preparation of municipal reform was objectively predetermined, as well as the degree to which it was the result of political processes and lobbying.

Thirdly and finally, at least a preliminary analysis of the processes of regionalization is required. The study of regional legislation, the division of regions into groups in accordance with specificities of the implementation of municipal reform, the identification of mechanisms whereby reform can be adapted to the specific features of certain regions, as well as of the instruments for accelerating or slowing-down the reform, – the analysis of all these aspects of regionalization will make it possible to assess the legal space which will be serving as the framework for implementing municipal reform throughout the period of transition; to identify the most significant regional features; and to determine which regions can generate the most interesting experience from the point of view of an assessment of the prospects of municipal reform.

Chapter 2. The Territorial Foundations of Local Self-government in the RF: the Results of Reform

2.1. The Territorial Organization of Local Self-government: Basic Provisions of Legislation

Changes in the territorial foundations of local self-government represent one of the fundamental areas of reforming the system of local self-government in the Russian Federation, consolidated by Federal Law No. 131-FZ “On general principles of the organization of local self-government in the Russian Federation”. The fundamental principles of reforming in this sphere are as follows:

- creation of a unified model of the territorial organization of local self-government throughout the whole territory of the Russian Federation, with the exception of the two cities of federal importance – Moscow and St. Petersburg³;
- legislative consolidation of the principles for establishing borders and determining the status of municipal formations.

Model of the territorial organization of local self-government. In accordance with Federal Law No. 131-FZ, all the territories of RF subjects must be subdivided into the territories of city okrugs and municipal raions, whose borders do not cross one another. At the same time, the territories of city okrugs are not to be part of the territories of municipal raions. The territories of municipal raions, in their turn, must be divided between the territories of urban and rural settlements. Exceptions may be represented by RF subjects or by those separate raions within RF subjects, which by a decree of the RF Government have been recognized as territories with low population density⁴. Within the borders of these administrative-territorial entities, intersettlement territories can be created –

³ In Moscow and St. Petersburg, in accordance with the Federal Law, local self-government exists in intracity territories. The establishment and changes of the borders of intracity municipal formations, as well as their transformations, are governed by laws issued by RF subjects, with due regard for the population’s opinion.

⁴ Regulation of the RF Government of 25 May 2004, No. 707-r, “On approving the lists of RF subjects and raions within RF subjects (within their existing borders) belonging to the territories with low or high population density”.

those that are not part of settlements and whose administration is executed directly by the bodies of local self-government of municipal raions.

Thus, the law has determined three basic types of municipal formations: city okrugs, municipal raions and settlements (urban and rural). City okrugs are one-tier municipalities, while on the territories of municipal raions a two-tier system of local self-government is created, which incorporates two types of municipalities coexisting in one and the same territory – municipal raions and settlements.

Principles for establishing the borders of municipal formations. In order to ensure a single approach to determining the territories of municipal formations, the following precise principles for establishing their borders were formulated in Article 11 of Federal Law No. 131-FZ.

In respect to *municipal raions*, it establishes:

- the requirement that borders are determined with due regard for the necessity to create appropriate conditions for the bodies of local self-government of a municipal raion to be able to find solutions to inter-settlement issues of local importance, as well as to execute, in a raion's territory, certain state powers;
- the principle of transport accessibility, in accordance with which the borders of a municipal raion should be determined with due regard for the availability of transportation to and from its administrative center during a working day for the residents of all the settlements located in its territory.

In this connection, the Law stipulates that the requirement for transport accessibility must not necessarily be complied with when establishing the borders of a raion with low population density.

In respect to *settlements*, the Law determines the composition of territories of urban and rural settlements, as well as introduces the principle of pedestrian accessibility for settlements, which incorporate several population units. In particular, in accordance with the initial version of Law No. 131-FZ, the territory of a settlement could incorporate:

- for urban settlements:
 - one town or one settlement with adjoining territory;
 - rural population units, which are not municipal formations;

- for *rural settlements*:
 - one rural population unit or a settlement with the population of more than 1,000 (or more than 3,000 for territories with high population density);
 - Several rural population units united by a single territory, with the population less than 1,000 (or less than 3,000 for territories with high population density);
 - one rural population unit with the population of less than 1,000 (the decision is to be made by a RF subject with due regard for population density and accessibility of the settlement's territory).

When the borders of a rural settlement consisting of several population units are determined, the Law stipulates that the requirement of pedestrian accessibility of its administrative center during a working day for the residents of all the population units, which are part of the settlement, should be complied with.

In respect to *city okrugs*, it has been stipulated that a city okrug is an urban settlement; therefore the composition of the territory of a city okrug is similar to that of the territory of an urban settlement. Also, the necessary requirement for an urban settlement to be granted the status of a city okrug should be the presence, within the city okrug and the adjoining municipal raion, of the social, transport and other infrastructure necessary for independent decisions to be made by the bodies of local self-government of those municipal formations concerning the issues of local importance of a given city okrug and municipal raion, respectively, and for the execution of certain delegated state powers.

Thus, the aforesaid principles of and restrictions to the process of creating municipal formations were to ensure the creation of a unified system of local self-government throughout the whole territory of the RF. However, as early as in the first few months of the implementation of reform of local self-government, certain significant flaws in the legislative regulation of the territorial foundations of local self-government organizations were already quite obvious.

In the part relating to the regulation of the process of creating *rural settlements*, the hottest disputes were stirred by the following norms stipulated in the Law. First of all, the legislation contained no explana-

tions concerning the notion of “pedestrian accessibility”, no quantitative parameters of pedestrian accessibility, and that principle itself was considered to be archaic and incompatible with existing realities. Besides, the necessity to take into account simultaneously the criteria of population numbers in the units constituting a rural settlement and the pedestrian accessibility of its administrative center (Items 6 and 11 of Part 1 of Article 11) gave rise to difficulties when determining the borders of rural settlements. As a result, in later versions of the Law the requirement of pedestrian accessibility was made somewhat less rigid by adding the phrase “as a rule” to Item 11 of Part 1 of Article 11 of Law 131-FZ⁵.

Considerable difficulties in establishing the borders of settlements were associated with the fact that the list of territories with low population density was determined at the federal level⁶, while whole RF subjects or whole raions within RF subjects could be included in this category. However, the population in Russia is quite often distributed unevenly across the territories of some raions, when in a raion with normal population density certain virtually unpopulated enclaves can be found (the territories covered by forests, natural reserves, or the territories of villages inhabited by only a few persons, etc.). The division of these territories between settlements is compatible with the norms stipulated in the Law, but has no practical sense, because the majority of the territories of such settlements are unpopulated. Nevertheless, this problem has been overlooked by the lawmakers when changes were being introduced into legislation on local self-government.

The flaws in the legislative regulation of the procedure for establishing borders and granting the status of *a city okrug* consisted, first of all, in the fact that Law No. 131-FZ, in its initial wording, contained no norms that permitted that the administrative centers of raions should remain, as before, those towns that were granted the status of a city okrug. In order to regulate this issue, in late 2004 the norms stipulating that a city okrug

⁵ Federal Law No. 186-FZ of 28 December 2004.

⁶ Regulation of the RF Government of 5 May 2004, No. 707-r, “On approving the lists of RF subjects and raions within RF subjects (within their existing borders) belonging to the territories with low or high population density”.

could be the administrative center of a municipal raion were added to the Law (Item 10 of Part 1 of Article 11).

Besides, the lack of precision in the formulation of the legislative norms regulating the composition of the territory of a city okrug gave rise to the phenomenon of city okrugs being created on the basis of rural raions. The problem was that, in accordance with the initial wording of Item 5 of Part 1 of Article 11 Law No. 131-FZ, the borders of a city okrug⁷ could include “*one town or one settlement with the adjoining territory, as well as rural population units which are not municipal formations*”. Formally, with this requirement were compatible both the cities of oblast importance, the majority of which had a certain territory under their jurisdiction, with all its settlements and rural population units, and administrative raions. As a result, in some regions an attempt was made to preserve the one-tier model of local self-government by creating city okrugs within the borders of administrative raions. This policy of regional authorities was compatible with the letter of the law, but was contrary to its spirit.

In order to put a stop to the practice of creating one-tier municipalities in rural areas, in late 2004 some amendments were made to the Law. It was intended that these amendments were to eliminate the diverse interpretations of the norms stipulated in the federal law, to appropriately regulate the composition of the territories of city okrugs, and to make impossible their creation on the basis of rural raions.

The main provisions stipulated in the amendments to the Law “On general principles...”, introduced by Federal Law of 28 December 2004, No. 186-FZ, in the part relating to the definition of the composition of the territories of urban settlements, were as follows. It was allowed to include into a city okrug not simply all the territories and rural population units adjoining a given city, but only “*the territories assigned by a general plan, adopted by an urban settlement, for purposes of developing its social, transport and other infrastructures*”. Thus, if a city had an approved general plan for the development of its territories, there could be

⁷ Since the law determines a city okrug as an urban settlement that satisfies certain additional requirements (paragraph 6 of Part 1 of Article 2), all the law’s norms regulating the composition of the territory of an urban settlement also apply to city okrugs.

no other decision as to the inclusion of certain territories into the newly created city okrug.

In absence of a general plan for the development of an urban settlement, the decision was to be made in accordance with paragraph 4 of Part 3 of Article 85 of Law No. 131-FZ. Therein it was stipulated that the borders of a city okrug were to be established “on the basis of the historic territory of a town (or settlement), as well as in accordance with the borders of the plots of land selected for urban construction, and [the borders] of the territories assigned for the development of the social, transport and other infrastructures of a town (or settlement)”. In absence of a legislatively approved definition of the notion of “historic territory of a town”, the borders of a city okrug could include virtually any adjoining territories. As a result, nearly all the previously created city okrugs on the territories of rural raions were preserved in those RF subjects that had created them, with the exception of Orenburg Oblast and two raions in Sakhalin Oblast.

Among the processes that gave rise to little conflict, as compared to others, was the process of granting the status of city okrugs to the territories that had the status of municipal formations under the previously existing Federal Law “On general principles of the organization of local self-government in the Russian Federation”. Not the least role in this connection was played by the time gaps between the coming into force of the Law’s separate articles. In particular, in paragraph 4 of Part 3 of Article 84 of Federal Law No. 131-FZ it was stipulated that those urban settlement which, as of the day of the coming into force of this Law, had the status of municipal formations, were now to become city okrugs, if not stipulated otherwise in the Law of a given RF subject adopted prior to 1 March 2005. At the same time, the Law granted to RF subjects the right not to endow such urban settlements with the status of a city okrug in an event of its answering the following two conditions:

- the absence, in the city and/or adjoining municipal raion, of the infrastructure necessary for the settling, by each of these municipal formations, of issues of local importance consolidated to them, and of delegated state powers (Part 2 of Article 11 of Law No. 131-FZ);

- the consent expressed by the population of both the city and the raion, the part of which a given city is to become in the status of an urban settlement, to these two entities being united (Part 7 of Article 13).

However, in actual practice, in a vast majority of cases no surveys were made in order to find out the population's opinion concerning the inclusion of the previously existing municipal formations into raions. The immediate reason was the fact that the decisions as to the status of municipal formations were to be made by regions before 1 February 2005 (in accordance with the initial wording of Law No. 131-FZ), while the Law's articles regulating the procedures of surveying the population's opinion were to come into force from 1 January 2006.

Thus, regional authorities were given an opportunity to disregard the population's opinion when making the decision as to the depriving the urban settlements, which had the status of municipal formations under the 1995 Law, of the status of "a city okrug". As a result, municipal raions now incorporated some rather big towns, with considerable social, economic and administrative potential. The examples are such towns in Leningrad Oblast as Gatchina, Volkhov, Svetogorsk, etc.

The unprecise and controversial stipulations in federal legislation on local self-government, when applied in practice, were giving rise to conflicts between local authorities and regional authorities. Quite often these disputes resulted in judicial proceedings. As a consequence, it had already become clear by late 2004 that the process of creating the territorial organizations of local self-government was not going to be completed by early February 2005. By Law No. 148-FZ of 28 December 2004, the timelines were extended by one month – until 1 March 2005.

At the same time, in some regions (Vladimir Oblast, the Republic of Ingushetia, the Republic of Chechnia) the process of determining the borders of municipal formations continued until the summer of 2005. As a result, the borders of 50 municipal formations were established by the RF Ministry for Regional Development – the empowered federal body which, in accordance with paragraph 2 of Part 3 of Article 85, had the right to establish the borders of those municipal formations, in respect to

which no decisions had been made by the authorities of RF subjects before 1 March 2005.

2.2. The Results of Reforming the Territorial Organization of Local Self-government

According to the RF Ministry for Regional Development, by 1 October 2005 the creation of the system of municipal formations had been completed in all RF subjects except the Republic of Ingushetia, where the borders of municipal formations established without due regard to the population's opinion gave rise to interethnic conflicts. A total of 24,510 municipal formations were created in the Russian Federation, including 520 city okrugs, 1,819 municipal raions, and 20,109 rural and 1,826 urban settlements⁸. In Moscow and St. Petersburg the territorial organization of local self-government remained unchanged: local self-government is executed within the borders of the cities' internal territories, which had been established prior to the 2003 reform.

Resulting from the completed reform of local self-government, the number of municipal formations in the Russian Federation increased nearly twofold: from 12.6 thousand to 24.5 thousand⁹. An analysis of the changed numbers of municipal formations in some regions has shown that, as a result of reform of local self-government, in 11 regions the number of municipal formations has slightly decreased, while in 17 regions it remained at the pre-reform level or grew insignificantly, in 29 regions the growth in the number of municipal formations was three-to-tenfold, and in 19 regions it increased more than tenfold (see *Table 2.1*).

⁸ *Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda N. 131-FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation") // Analyticheskii vestnik (The Analytical Herald). M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005, p. 110.*

⁹ These figures do not include the intracity municipal formations in Moscow and St. Petersburg.

Table 2.1

Classification of regions, by increased numbers of municipal formations resulting from municipal reform¹⁰

<i>Group</i>	<i>Number of regions in group</i>	<i>Regions</i>
<i>Regions where number of municipal formations decreased as compared to pre-reform level</i>	11	Republic of Dagestan, Republic of Mordovia, Republic of North Osetia- Alania, Republic of Khakassia, Krasnoyarsk Krai, Amur Oblast, Bryansk Oblast, Voronezh Oblast, Magadan Oblast, Cheliabinsk Oblast, Taimyr AO
<i>Regions where number of municipal formations remained at pre-reform level</i>	18	Republic of Kabardino-Balkaria, Republic of Adygeya, Republic of Bashkortostan, Republic of Kalmykia, Republic of Tatarstan, Altay Krai, Khabarovsk Krai, Kurgan Oblast, Kursk Oblast, Lipetsk Oblast, Novosibirsk Oblast, Orel Oblast, Penza Oblast, Tambov Oblast, Agin- Buriat AO, Koriak AO, Nenets AO, Evenk AO
<i>Regions where number of municipalities increased no more than 3-fold</i>	9	Republic of Karachai-yevo-Cherkessia, Stavropol Krai, Astrakhan Oblast, Vladimir Oblast, Kaliningrad Oblast, Murmansk Oblast, Nizhnii-Novgorod Oblast, Sakhalin Oblast, Sverdlovsk Oblast
<i>Regions where number of municipalities increased 3-to- 10-fold</i>	29	Republic of Altay, Republic of Karelia, Republic of Mariy El, Republic of Tyva, Krasnodar Krai, Primorskii Krai, Archangelsk Oblast, Ivanovo Oblast, Kaluga Oblast, Kamchatka Oblast, Kemerovo Oblast, Kostroma Oblast, Leningrad Oblast, Moscow Oblast, Perm Oblast, Pskov Oblast, Rostov Oblast, Samara Oblast, Tver Oblast, Tomsk Oblast, Tula Oblast, Tumen Oblast, Ulianovsk Oblast, Yaroslavl Oblast, Komi-Permiak AO, Khanty-Mansi AO, Chukotskii Autonomous Okrug, Yamal-Nenets AO, JAO
<i>Regions where number of municipalities increased more than 10-fold</i>	18	Republic of Buryatia, Republic of Komi, Republic of Sakha (Yakutia), Republic of Udmurtia, Republic of Chuvashia, Belgorod Oblast, Volgograd Oblast, Vologda Oblast, Irkutsk Oblast, Kirov Oblast, Novgorod Oblast, Omsk Oblast, Orenburg Oblast, Riazan Oblast, Saratov Oblast, Smolensk Oblast, Chita Oblast, Ust'-Ordynskii Buriatskii AO

Source: Voprosy zakonodatel'nogo obespecheniia territorial'noi organizatsii mestnogo samoupravleniia. (Issues of legislative backing for the territorial organization of local self-government.) // Ed. by Mokryi S. // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, 2002, No. 8; Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda No. 131-FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation") // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005, Zakony o regional'nykh biudzhetakh na 2004 g. (Laws on regional budgets for the year 2004).

¹⁰ In *Annex 2.1*, see the data on the number of municipal formations in RF subjects before and after the onset of municipal reform of 2003–2005.

The negligible growth in the number of municipal formations in some regions is associated with the fact that, prior to 2003, in many RF subjects there had, in fact, existed the settlement model (or two-tier model) of local self-government organization, when a settlement (settlements of the urban type, village councils, towns of raion importance, and other territorial-administrative units) had the status of separate municipal formations. According to the data published by the Committee of the State Duma for issues of local self-government, the settlement model of the territorial organization existed in 11 regions, the two-tier structure – in 19 regions. In actual practice, the majority of these settlements did not represent separate municipal formations, that is, they did not possess such basic signs of a municipal formation as the existence of a separate budget and municipal property.

An analysis of the changes in the number of municipal formations, by comparison with the number of those municipal formations that did possess all the signs of a municipal formation in accordance with the previously existing Law on local self-government, has shown that in the Russian Federation, as a result of municipal reform, the number of administratively independent participants in interbudgetary relations went up by 5.7 times (see *Table 2.1*). Also, significant growth in this index occurred in those 23 regions where prior to the enactment of the new Law there had existed the two-tier or settlement model of local self-government organization. The average number of subjects of interbudgetary relations at the municipal level in those regions increased by 11 times, as compared to the pre-reform level, in one region the number of subjects of interbudgetary relations increased 3.6 times, in 10 regions the increase was five to tenfolds, in 12 regions – more, than tenfolds. In the resting 7 regions the number of subjects of interbudgetary relations remained the same. The classification of regions depending on the increased numbers of subjects of interbudgetary relations as a result of municipal reform is shown in *Table 2.2*. As can be seen, only in 5 regions the number of subjects of interbudgetary relations remained at the pre-reform level, while in 6 it increased by less than 3 times. In the resting 73 regions, included in the analysis this index rose by more than three times, including 30 regions, where the increase was more, than tenfolds.

Table 2.2

Classification of Regions Depending on Increased Number of Subjects of Interbudgetary Relations Resulting from Municipal Reform*

<i>Group</i>	<i>Number of regions in group</i>	<i>Regions</i>
<i>Regions where number of subjects of interbudgetary relations remained at pre-reform level</i>	5	Kurgan Oblast, Kursk Oblast, Novosibirsk Oblast, Nenets AO, Evenk AO
<i>Regions where number of subjects of interbudgetary relations increased no more than 3-fold</i>	6	Stavropol Krai, Astrakhan Oblast, Kaliningrad Oblast, Murmansk Oblast, Sakhalin Oblast, Sverdlovsk Oblast
<i>Regions where number of subjects of interbudgetary relations increased 3-to-10-fold</i>	43	Republic of Karachaievo-Cherkessia, Republic of Adygeya, Republic of Altay, Republic of Dagestan, Republic of Kalmykia, Republic of Karelia, Republic of Mariy El, Republic of North Osetia-Alania, Republic of Tyva, Republic of Khakassia, Krasnodar Krai, Krasnoyarsk Krai, Primorskii Krai, Archangelsk Oblast, Briansk Oblast, Vladimir Oblast, Ivanovo Oblast, Kaluga Oblast, Kamchatka Oblast, Kemerovo Oblast, Kostroma Oblast, Leningrad Oblast, Magadan Oblast, Moscow Oblast, Orel Oblast, Perm Oblast, Pskov Oblast, Rostov Oblast, Samara Oblast, Tver Oblast, Tomsk Oblast, Tula Oblast, Tumen Oblast, Ulianovsk Oblast, Cheliabinsk Oblast, Yaroslavl Oblast, Komi-Permiak AO, Koriak AO, Taimyr AO, Khanty-Mansi AO, Chukotskii AO, Yamal-Nenets AO, JAO
<i>Regions where number of subjects of interbudgetary relations increased more than 10-fold</i>	30	Republic of Kabardino-Balkaria, Republic of Udmurtia, Republic of Chuvashia, Republic of Bashkortostan, Republic of Buryatia, Republic of Komi, Republic of Mordovia, Republic of Sakha (Yakutia), Republic of Tatarstan, Altay Krai, Khabarovsk Krai, Amur Oblast, Belgorod Oblast, Volgograd Oblast, Vologda Oblast, Voronezh Oblast, Irkutsk Oblast, Kirov Oblast, Lipetsk Oblast, Novgorod Oblast, Nizhnii-Novgorod Oblast, Omsk Oblast, Orenburg Oblast, Penza Oblast, Riazan Oblast, Saratov Oblast, Smolensk Oblast, Tambov Oblast, Chita Oblast, Ust'-Ordynskii Buriatskii AO

* In absence of available data concerning the existence of municipal budgets prior to the onset of reform in 2003–2006, the Agin-Buriat AO has been excluded from this sample.

Source: Voprosy zakonodatel'nogo obespecheniia territorial'noi organizatsii mestnogo samoupravleniia. (Issues of legislative backing for the territorial organization of local self-government.) / Ed. by Mokryi S. // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, 2002, No. 8; *Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda No. 131-FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii"* (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation") // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005, *Zakony o regional'nykh biudzhetakh na 2004 g.* (Laws on regional budgets for the year 2004).

Also rather interesting is the analysis of the policies of regional authorities in establishing the borders of municipal formations of different types, which has revealed that in the majority of RF subjects the borders of *municipal raions* were the same as those of administrative raions. In some instances the borders of raions were changed by including or excluding certain population units or village councils from those raions. When the borders of raions were being changed, the historically developed interconnections between population units were taken into account, as well as the accessibility of a raion's administrative center (e. g., the existence of roads, bridges and public transportation routes between certain points, the distances between these point and a raion's administrative center, etc.).

In some regions we observed the practice of transforming towns into municipal raions, that is, the creation of a municipal raion on the territory of a town, when urban raions and / or population units under the town's jurisdiction were becoming administratively independent municipal formations – settlements. However, such instances were singular.

When the borders of *city okrugs and urban settlements* were being established, the territories of towns were quite often increased by incorporating into their borders some of the adjoining rural territories. As for granting the status of a city okrug or an urban settlement, this process quite often gave rise to conflicts developing into judicial proceedings. The policies of regional authorities in granting the status of a city okrug are discussed in more detail in section 2.4.

In contrast to raions and big cities, which in a majority of cases had already enjoyed the status of municipal formations prior to the onset of reform in 2003, a considerable percentage of *rural settlements* were created anew (9,968 of 19,801 rural settlements). As for the policies of regional authorities in establishing the borders of the municipal formations of this type, they were quite versatile. Several approaches to the division of the territories of administrative raions into the territories of settlements can be distinguished in this connection.

The first approach consisted in the creation of a rural settlement on the basis of a previously existing submunicipal structure – that of a rural administration, which had represented a territorial subdivision of a raion

administration. Rural administrations were functioning, as a rule, in all village councils on the territories of municipal raions. This approach did not take into account the territories' financial and economic potential. The borders of some of the village councils had been changed due to the requirement stipulated in federal legislation as to the pedestrian accessibility of a settlement's administrative center for the residents of all its constituent population units, the necessity to take into account the historically developed system of interconnections between different population units, and some other reasons.

The second approach departed from the need to ensure the independence of bodies of local self-government in their decision-making on the issues of local importance. For these purposes, the establishment of borders was based not only on the formal criteria stipulated in the Federal Law, but also on the territories' financial and economic potential, as well as on the existence of transport and social infrastructure necessary for the issues of local importance of settlements to be adequately dealt with. In those regions where this approach to the territorial organization of local self-government was practiced, the number of municipal formations at the settlement level was substantially decreased, as compared to the number of submunicipal structures previously existing on their territories. Under such conditions, the expenditures on the administrative apparatus increase to a lesser degree, and the potential of settlements in dealing with issues of local importance becomes greater. Nevertheless, this policy in establishing the borders of settlements did not always result in ensuring the financial independence of bodies of local self-government, the reason for which was the low level of the territories' economic development and uneven distribution of tax bases across a region's territory¹¹.

¹¹ Concerning the policy of the state authorities of RF subjects in establishing the borders of municipal formations in 2004, see Starodubrovskaya I. et al. *Problemy reformy mestnogo samoupravleniia. Strukturnye i finansovye aspekty.* (Problems faced by reform of local self-government. Structural and financial aspects). – M.: IET, 2005.

2.3. An Analysis of the Policies of Regional Authorities in Respect to the Founding of Settlements

This section contains our analysis of the policies of bodies of state authority of RF subjects in establishing the borders of rural settlements. The analysis' main goal has been to provide answers to the following questions:

- the degree to which the policy of uniting administrative-territorial entities during the creation of settlements was indeed widespread;
- whether the model of territorial organization of local self-government previously existing in a region did indeed influence the policy of granting the status of a settlement to intraraion territories;

The analysis was based on the following information:

- the numbers of the administrative-territorial entities of various types in RF subjects as of 1 January 2002¹²;
- the numbers of the municipal formations of various types in RF subjects as of 1 October 2005¹³;
- data provided by the Center for fiscal policy concerning the models of territorial organization of local self-government existing in RF subjects prior to the onset of reform in 2003.

The analysis has made use of the available data on the majority of Russia's regions, with the exception of Moscow and St. Petersburg, where there exist intracity municipal formations, the Republic of Chechnia and the Republic of Ingushetia (due to the lack of data on the numbers of municipal formations there).

In course of the analysis, the numbers of administrative – territorial entities in RF subjects were compared to the numbers of new settlements (urban and rural) created in accordance with Law No. 131-FZ. This com-

¹² Voprosy zakonodatel'nogo obespecheniia territorial'noi organizatsii mestnogo samoupravleniia. (Issues of legislative backing for the territorial organization of local self-government.) / Ed. by Mokryi S. // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, 2002, No. 8.

¹³ Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda N. 131-FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation") // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005.

parison has made it possible to estimate the growth in the number of municipal formations in absence of policies aimed at enlarging territories when creating municipalities at the level of settlements, as well as to identify those regions where such policies were indeed pursued. As those administrative-territorial entities that were candidates for the status of a settlement, the cities of oblast importance, the towns of raion importance, as well as settlements and village councils, were studied. When making the comparison, the number of towns granted the status of city okrugs was excluded from the number of administrative-territorial entities.

The analysis involved three groups of regions; the distribution of regions into groups depended on the model of the territorial organization of local self-government that had existed in each region prior to the onset of municipal reform:

- one-tier raion model;
- one-tier settlement model;
- two-tier model of local self-government.

The classification of regions was done without taking into account the presence or absence of all the signs of a municipal formation in a given settlement¹⁴. This particular approach was been chosen because, irrespective of the presence or absence of powers, or of separate budgets and municipal property in the municipal formations of the settlement type, the procedures of their transformation into urban or rural settlement under Federal Law No. 131-FZ basically differed from those applied to the establishment of borders on the territories that did not have this status.

First of all, in accordance with the stipulations in paragraph 1 of Part 3 of Article 84 of the Law, any changes or transformations of the borders of those municipal formations that existed as of the moment of the Law's official publication were to be carried out in conformity with the requirements stipulated in Articles 12 and 13. By these articles it was established, in particular, that in order to be able to make decisions in respect

¹⁴ The signs of a municipal formation are determined in paragraph 2 of Article 1 of Federal Law of 28 August 1995, No. 154-FZ, "On general principles of the organization of local self-government in the Russian Federation", where a municipal formation is defined as "an urban, or rural, settlement, or several settlements united by a single territory, or a part of settlement, or other populated territory envisaged in the present Federal Law, within the borders of which local self-government is executed, and it has municipal property, local budget and elective bodies of local self-government".

to these issues, the authorities of a RF subject needed the population's consent. The consent of the population could be obtained by means of voting or at citizens' general meetings, with due regard for the opinion of the representative body of a given settlement. As was already mentioned in the previous section of this chapter, the article of the Law No. 131-FZ that regulated the voting procedures was to come into force after the borders of settlements would have been established. Nevertheless, the Law's requirement concerning general meetings of the citizens of settlements, as an alternative to voting in making known the opinion of the population, could also become a restricting factor against mass-scale changes of the borders of settlements.

One more specific feature in establishing the borders of those settlements that were newly created on the basis of previously existing municipal formations was the fact that the Law's provisions regulating the composition of the territories of rural and urban settlements, as well as the restrictions on the size of the population units that could be incorporated into them, were not applied to them. At the same time, the necessity to comply with the quantitative restrictions on the size of population units and with the requirement that borders be set with due regard for pedestrian accessibility of a settlement's center from all the population units on those territories that did not have the status of a municipal formation often gave rise to controversies and created problems when the decisions concerning the borders to be established were being made¹⁵.

Thus, the differences in the regulation, by the Federal Law, of the procedures for establishing the borders of those settlements that did have the status of a municipal formation and those that did not have that status,

¹⁵ Otchiot o rabote po teme "Podgotovka rekomendatsii po realizatsii trebovanii novoi redaktsii FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" k formirovaniu territorii munitsipal'nykh obrazovani i struktur organov mestnogo samoupravleniia", vypolniamoi v ramkakh gosudarstvennogo kontrakta No. 8.58.10/198 ot 20 oktiabria 2003 goda. (Report on the work on the theme "Development of recommendations for applying the requirements stipulated in the new version of the FL "On general principles of the organization of local self-government in the Russian Federation" to the creation of the territories of municipal formations and the structure of bodies of local self-government", implemented within the framework of State Contract No 8.58.10/198 of 20 October 2003, Tsentr fiskal'noi politiki (Center for Fiscal Policies), 2003, www.asdg.ru/mm/91940.doc.

could have a certain impact on the policies of regional authorities applied in creating the territorial organization of local self-government.

Some limitations of our analysis should be pointed out. First of all, these are associated with the fact that the information concerning the number of administrative-territorial entities in the regions was available only for the periods prior to early 2001, and, consequently, the administrative-territorial structure of some regions could well have changed in later years. However, in absence of information on the processes of large-scale transformations going on in this sphere, we decided to make use of the data that were available, although in some regions the lack of any later data could produce somewhat distorted results.

Secondly, as we have already mentioned in this section, the regions were classified by those models of territorial organization of local self-government that had been implemented on a greater part of each region's territory. However, the distinctive feature of the system of local self-government before 2003 was the absence of a unified model of the territorial organization of local self-government not only on a nation-wide scale, but also on the territories of individual regions.

In some regions, there existed certain raions where the model of the territorial organization of local authorities was different from the one newly created in that region's other territories. Thus, for example, in Astrakhan Oblast the predominant type of the territorial organization of local self-government was the two-tier model, with the existence of municipalities both at the raion level and at the level of towns, settlements and village councils. Nevertheless, in two of the Oblast's raion, the raion-level municipalities were created. In Tumen Oblast, after the model of the territorial organization of local self-government was changed in 2002 from the settlement-based to the raion-based one, the settlement-type municipalities were still preserved in one raion (Tumen raion).

At the same time, any attempts at distinguishing the regions with "pure" models of the organization of local self-government (those regions where in all administrative raions only one of the three basic models of the territorial organization of local self-government was implemented), result in a substantial percentage of regions being excluded from the sam-

ple¹⁶. In this connection, it was decided that all RF subjects were to be studied, and their classification was to be based on the dominating model of the organization of local self-government being applied there. In particular, Astrakhan Oblast was placed in the category of regions with the two-tier structure of local self-government, while Tumen Oblast – in the category of regions with the raion-based model. Nevertheless, the presence on the territories of these regions of other models of the organization of local self-government may somewhat distort the results of our analysis (see *Tables 2.3–2.5*).

The results of the analysis are shown in *Tables 2.3–2.5*. In each of the columns, regions are arranged in the order of growing percentage of changes in the number of settlements, as compared to that of administrative-territorial entities. As can be seen from the data shown in the Tables, the assumption that the regions, while creating settlements, were rather actively pursuing the policy aimed at enlarging the existing territories of municipal formations, has been confirmed. According to the State Duma's Committee for issues of local self-government¹⁷, in 2001 in Russia there existed approximately 26,100 administrative-territorial entities inside raions (towns of raion-level importance, settlements, village councils, volosts, etc.). Thus, in absence of the policy aimed at uniting administrative-territorial entities when creating settlements, the total number of municipal formations in the RF could have become 28,400, or by 13.7% more than the presently existing municipal formations of various types.

When analyzing the policies of specific regions in establishing borders, it was revealed that the maximum reduction in the number of mu-

¹⁶ For example, in course of the implementation of the CEPRA project in 2004, a quantitative analysis was performed with the purpose of determining the factors that could influence the choice of the territorial structure of a municipal formation during the implementation of the 1995 law on local self-government. As a result, there were found 39 regions with the raion structure, 4 regions with the settlement structure, 13 regions with the two-tier model of local self-government, and 33 regions were excluded from the sample because of the simultaneous presence on their territories of different models of local self-government organization. (See Starodubrovskaya I. et al. *Problemy reformy mestnogo samoupravleniia. Strukturnyie i finansovyie aspekty. (Problems faced by reform of local self-government. Structural and financial aspects)*. – M.: IET, 2005).

¹⁷ *Voprosy zakonodatel'nogo obespecheniia territorial'noi organizatsii mestnogo samoupravleniia. (Issues of legislative backing for the territorial organization of local self-government.)* / Ed. by Mokryi S. // *Analyticheskii vestnik (The Analytical Herald)*, M.: Committee of the State Duma for issues of local self-government, 2002, No. 8.

nicipal formations, by comparison with the number of administrative – territorial entities, can be observed in *regions with the raion model of local self-government organization*. In fact, nearly all the regions in this group, when creating rural settlements, did unite the territories of village councils. In 6 of 56 regions the number of settlements rose slightly (less, than 10%) or remained the same, in 13 regions the number of rural settlements, as compared to the number of submunicipal structures, decreased no more than by 10%, while in 29 regions the decrease was by 10 to 50%.

The most active policy in this sphere was pursued by 4 regions. In Tula Oblast, Yaroslavl Oblast and Ulianovsk Oblast, as well as in the Komi-Permiak Okrug, the number of rural settlements constituted between 50% and 80% of the number of previously existing submunicipal structure. Moreover, in four regions the number of settlements reduced more than by 80%. These are the regions with vast intersettlement territories (the Taimyr (Dolgano – Nenets) AO), or the regions, where the two-tier local self-government system was not fully implemented (Kaliningrad Oblast, Sverdlovsk Oblast and Sakhalin Oblast) (see *Table 2.3*).

It should be noted that in some regions the uniting of administrative-territorial entities while the borders of settlements were being established was by no means a new process; in effect, it was the consolidation in legislation of the already existing practical system of territory administration. This situation was observed, for example, in Kaluga and Leningrad Oblasts. In some of the administrative raions within these RF subjects, the so-called “united administrations” had already been created before the onset of municipal reform. When the united administrations were created, the submunicipal structures in each of the village councils were abolished, with the formation of a single administrative body with the jurisdiction over a united territory consisting of several former village councils. At the same time, the administrative-territorial structure of raions remained as before: the borders of village councils were not changed.

In contrast to the regions with the raion model of the organization of local self-government, most of *the regions with the settlement model* were implementing no active policy aimed at reducing the number of territo-

ries under local self-government. Among the 12 regions in this group, in 7 regions the status of rural and urban settlements was granted to all the previously existing settlement-type municipalities, and so the number of municipalities of that level did not change. In the other 5 regions, certain transformations took place in the sphere of the territorial organization of local self-government; however, no significant changes in the number of municipal formations (upward/downward) were observed in those regions (see *Table 2.4*).

A similar policy in establishing the borders of rural and urban settlements was conducted by the authorities in those regions where formally there existed the two-tier model of the territorial organization of local self-government. In the majority of regions in this group, the number of settlements remained virtually unchanged, as compared to the previous period in the development of local self-government. The results of our analysis of the group of regions with two-tier model of local self-government are presented in *Table 2.5*.

The policies of the regional authorities in Bryansk and Vladimir Oblasts, where during the establishment of the borders of municipal formations the administrative-territorial structure itself was undergoing active transformations, was not typical of the *regions with the two-tier model of the organization of local self-government*. Resulting from the enlargement of rural territories, the number of rural and urban settlements in Bryansk Oblast decreased by 43 % (from 448 administrative-territorial entities¹⁸ to 253 urban and rural settlements), and in Vladimir Oblast – by 63%, as compared to the previously existing territories of local self-government (from 258 administrative-territorial entities¹⁹ to 96 urban and rural settlements).

¹⁸ According to *The Analytical Vestnik of the RF State Duma*, as of 1 January 2001 in Bryansk Oblast there were 413 village councils, 22 urban-type settlements, 11 towns of raion importance and 7 towns of oblast importance, 2 of which became urban settlements as a result of ongoing reform.

¹⁹ According to *The Analytical Vestnik of the RF State Duma*, as of 1 January 2001 in Vladimir Oblast there were 223 village councils, 18 urban-type settlements, 12 towns of raion importance and 10 towns of oblast importance, 5 of which became urban settlements as a result of ongoing reform.

2.4. The Regions' Strategies in Granting the Status of a City Okrug to Municipal Formations

When the concept of reform of local self-government was being developed, city okrugs were regarded as potential points of economic growth in the regions. For purposes of developing their economic and socio-cultural potential, legislation granted to city okrugs more freedom in implementing their own independent policy than it did to urban settlements: city okrugs were to make decisions concerning the issues of local importance of both municipal raions and settlements. For the financial backing of their activities in finding solutions to issues of local importance, certain revenues sources were transferred to these territories, and consolidated to both municipal raions and settlements.

While the Law on local self-government was being developed, serious complications were posed by the question as to which definitive criteria of a city okrug were to be entered in the Law. The attempts to apply the number of population as such a criterion were not successful, because RF regions vary dramatically in their numbers of urban population, and it was not possible to establish a definite population threshold for distinguishing urban settlements from city okrugs. However, according to some researchers, the number of a town's inhabitants should serve as one of the key factors to be taken into consideration when granting the status of a city okrug, because it is the population that represents the index of a town's "administrative potential", and, consequently, its ability to make decisions concerning an extended list of issues of local importance²⁰.

Since it was found to be impossible to introduce quantitative criteria as indices characterizing city okrugs, it was decided to apply the criterion of infrastructure being sufficient for providing independent solutions to local problems and executing delegated state powers. This infrastructure should exist in both city okrugs and those municipal raions from which the territories of city okrugs are to be excluded (Part 2 of Article 11 of Law No. 131-FZ).

The analysis of the history of the territories' administrative organization in Russia has made it possible to assume that the criterion of infra-

²⁰ Markvart E., Klimenko O., Starodubrovskaya I., 2004, p. 20.

structure sufficiency, with the highest degree of probability, is met by cities and towns of oblast importance (previously the towns and cities under oblast jurisdiction), which throughout the Soviet period of Russia's development were not part of the regions' administrative raions. Thus, the infrastructure of such towns and cities (social, transport, etc.) was being developed independently of that of the adjoining administrative raions. As of 1 January 2004, there existed in the Russian Federation 652 towns and cities of oblast importance, their population being from 0.3 thousand (the town of Magas in the Republic of Ingushetia) to 1,413 thousand (the city of Novosibirsk).

One more candidate for the status of a city okrug were territories with the status of administratively independent municipal formations in accordance with Federal Law No. 154-FZ "On general principles of the organization of local self-government in the Russian Federation". By Law No. 131-FZ, it was established that those urban settlements, which under previously existing legislation on local local self-government had been municipal formations, were to become city okrugs from 1 January 2006, if not established otherwise by a law issued by a RF subject before 1 March 2005²¹ (paragraph 4 of Part 3 of Article 84). In this connection, it was specified that not all of the previously functioning municipal formations of the settlement type could become city okrugs, but only those municipalities which were making decisions, on their own territories, concerning all the issues of local importance. If the territory of a town was incorporated into that of a raion, and the law of a RF subject established the lists of issues of local importance separately for each level of municipalities and divided between them the objects of municipal property and revenue sources, the decision concerning granting a certain status to such a settlement was to be made, in a mandatory procedure, by the RF subject. However, very few instances of the division of powers, objects of property and revenue sources between municipalities of different levels by regional laws were actually observed²². Therefore, nearly all

²¹ According to the Law's initial wording, RF subjects had to formulate their decision concerning the granting of the status of a city okrug or urban settlement to the previously existing municipalities before 1 February 2005. Later the deadline was extended until 1 March of that year.

²² The exception is represented by the Law of Kaluga Oblast "On local local self-government in Kaluga Oblast", whereby separate lists of issues of local importance were established for towns of

urban settlements that had enjoyed the status of municipal formations under the 1995 Law had the right to become city okrugs (cities and towns of oblast and raion importance, as well as urban-type settlements (US)).

It should be noted that the “two multitudes” – “administratively independent municipal formations under the 1995 Law” and “cities and towns of oblast importance” – were overlapping but not identical. In addition to cities and towns of oblast importance, in some regions the status of administratively independent municipal formations was enjoyed by towns of raion importance, US and village councils. This is primarily true of the regions with the two-tier and settlement systems of local self-government organization; however, in some of the regions with the raion model of local self-government organization, certain towns and settlements were municipalities as well (for example, in Leningrad Oblast and Kaluga Oblast).

On the other hand, by far not all of the cities of oblast importance were municipal formations. In regions with the raion model of local self-government organization, the practice of including cities and towns of oblast importance into administrative raions and the creation of the so-called “single municipal formations “city-raion” became rather widespread. The examples of such practice are the following municipal formations: “the town of Staraia Russa and Staraia-Russa raion”, and “the town of Borovichi and Borovichi raion” in Novgorod Oblast, “the town of Vyborg and Vyborg raion” in Leningrad Oblast, and many others.

Considering all the aforesaid facts, when analyzing the strategies of regions in endowing urban settlements with the status of city okrugs, special emphasis was placed on the following directions of research. One was represented by the policies of regions in respect to cities of oblast importance, the majority of which are the biggest cities in their respective regions, with the most highly developed economic base and social infrastructure. The other was the attitude of regional authorities towards those cities and towns that under previously existing legislation on local self-government had had the status of administratively independent municipal formations and whose bodies of authority had experience in decision-

oblast importance, for administrative raions and for settlements. Also, in that Law it was attempted to establish the criteria for dividing property objects.

making concerning the issues of local importance, the list of which under the 1995 Law had been even somewhat more extensive than that established by Law No. 131-FZ.

In course of the analysis, we made use of the following sources of information:

- the information published by the RF Ministry for Regional Development concerning the implementation of Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”, including the data on the numbers of municipal formations of different types in RF subjects (as of 1 October 2005)²³;
- the collection published by the RF Goskomstat “Chislennost naseleeniia RF po gorodam, posiolkam gorodskogo tipa i raionam na 1 ianvaria 2004 g.” (“Numbers of the population of the RF by cities, urban-type settlements and raions as of 1 January 2004”);
- the laws on regional budgets for the year 2004;
- the regional laws on establishing borders and granting the status of municipal formations.

The information available from the RF Ministry for Regional Development became the study’s starting point, because it contained the data concerning the total number of city okrugs in the territory of each RF subject.

The analysis of the laws on regional budgets for the year 2004 made it possible to compile a list of those urban settlements that had been municipal formations under the 1995 legislation on local self-government. The laws on budgets as sources of information were chosen because they contained full lists of the territories with all the signs of a municipal formation, including the local budget.

The collection published by the RF Goskomstat with the numbers of the population in towns and cities, urban-type settlements and raion con-

²³ *Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda No. 131-FZ “Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii” (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”) // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005.*

tained, in addition to those numerical data, also the information concerning the status of the administrative-territorial entities within RF subjects. On the basis of these data we could determine the lists of cities and towns of oblast and raion importance in each region.

And, finally, the regional laws on establishing borders and granting the status of municipal raions, city okrugs and settlements (urban and rural) to territories enabled us to make complete lists of city okrugs in all RF subjects.

The analysis involved 79 regions, all the other regions having been excluded from the analysis for several reasons:

- they had their own territorial organization of local self-government, which was different from all the other parts of the Russian Federation (Moscow, St. Petersburg);
- the absence of necessary normative-legal acts in publicly accessible legal databases (the Republic of Ingushetia, Karachai-Cherkesskaya Republic, Ulianovsk Oblast, the Taimyr AO, the Evenk AO, the Koriak AO, the Agin-Buriat AO, the Chukotskii AO, Ust'-Ordynskii Buriatskii AO).

As a result of the analysis, all the regions were subdivided into several groups in accordance with the policies of their regional authorities in creating city okrugs.

The first group contains those regions that granted the status of a city okrug to all the cities of oblast importance that had enjoyed the status of municipal formations prior to the onset of municipal reform in 2003. This group is the largest, consisting of 51 out of the 75 analyzed regions (see *Table 2.6*). Also, in the majority of regions in this group, all the cities of oblast importance became city okrugs (31 of 51 regions), while in the other groups, just as at the previous stage of the development of local self-government, only some cities were granted this status.

The second group is represented by Briansk Oblast, Ivanovo Oblast and the Republic of Komi where, by the time when reforming began, the status of municipal formations had been enjoyed not only by cities of oblast importance, which historically were never part of administrative raions, but also by towns of raion importance, settlements and village councils. As for the issues of local importance, property and revenue

sources, these were not divided between municipalities of different levels. All these municipal formations were granted the status of city okrugs in accordance with Part 3 of Article 84 of Federal Law No. 131-FZ.

The third group consists of those regions where some of those urban settlements that had the status of municipal formations were not granted the status of a city okrug. In 5 regions, the status of a city okrug was not granted to towns of raion importance and to settlements, and in 13 regions – to cities and towns of oblast importance.

As a result, the status of city okrugs was withheld from 54 cities and towns of oblast importance, which previously had been administratively independent municipal formations. Most of these cities and towns are big enough, with adequate capacities for settling the issues of local importance at a city okrug's level: a substantial administrative potential, well-developed infrastructure, and sufficient tax base. The biggest among such cities are Angarsk (with the population of 245,5 thousand) in Irkutsk Oblast, Gatchina (88,4 thousand) in Leningrad Oblast, Neruingi (65,8 thousand) in the Republic of Sakha (Yakutia), Belorechensk (60,3 thousand) and Labinsk (62,9 thousand) in Krasnodar Krai.

The fourth group consists of only two regions – Primorskii Krai and Yaroslavl Oblast. In these regions, some of the cities and towns of oblast importance for the first time became administratively independent municipal formations in accordance with the 2003 legislation on local self-government. Before that moment they had been part of administrative raions in the capacity of administrative centers. Consequently, the issues of local importance on these territories had been dealt with by raion authorities.

In Primorskii Krai, the cities and towns of oblast importance – Spassk-Dal'nii, Ussuriisk and Lesozavodsk, which previously had not enjoyed the status of a municipal formation, became city okrugs. Thereby all the cities and towns of oblast importance in that region became city okrugs.

Quite illustrative is the case of Yaroslavl Oblast, where, by decision of the RF subject, only two cities – Yaroslavl and Pereyaslavl-Zalesskii – were to be granted the status of city okrugs²⁴. All the other cities and

²⁴ Law of Yaroslavl Oblast of 21 December 2004, No. 65-z “On the names, borders and status of municipal formations in Yaroslavl Oblast” (initial wording).

towns of oblast importance were to become part of raions, as before. However, the active opposition to this decision on the part of the residents of Rybinsk, who initiated judicial proceedings concerning the issue of the status of a city okrug to be granted to that city, resulted in the regional authorities being forced to alter their initial decision. As a result, on 19 September 2005, Oblast Law No. 42-z Law of Yaroslavl Oblast of 19 September 2005, No. 42-Z, ‘On introducing changes into the Law Yaroslavl Oblast “On the names, borders and status of municipal formations in Yaroslavl Oblast”’ was adopted, whereby Rybinsk was granted the status of a city okrug.

The fifth and sixth groups of regions are constituted by those regions which, having taken advantage of the flaws of federal legislation, went as far as to actually distort the logic of municipal reform. In particular, the fifth group consists of those regions where city okrugs were created on the basis of rural raions, while the sixth – of those where cities and towns of oblast importance, with the territories under their jurisdiction, were granted the status of municipal raions.

The practice of creating city okrugs on the basis of rural raions became rather widespread in some regions. Thus, in an attempt to preserve the previously existing raion model of local self-government organization, the regional authorities in Kaliningrad Oblast, Sakhalin Oblast and Sverdlovsk Oblast, in most part of the regions’ territories, endowed the former administrative raions with the status of city okrugs, thereby having violated the right of the rural population to establish the authority at the nearest level – that of a settlement. An attempt to turn all administrative raions into city okrugs was made in Orenburg Oblast²⁵, but later this decision was altered. In certain regions, some administrative raions became city okrugs. For the full list of regions belonging to the fifth group, see *Table 2.6*.

One of the most exotic examples of a city okrug in the Russian Federation is the Novaia Zemlia Archipelago which, in accordance with the existing administrative - territorial structure, is part of Archangelsk

²⁵ Law of Orenburg Oblast of 24 September 2004, No. 1470/244-III-OZ “On granting to the municipal formations of Orenburg Oblast the status of city okrugs and on establishing their borders, and on recognizing as null and void and changing certain legal acts of Orenburg Oblast”.

Oblast. The status of a city okrug was granted to this municipal formation by Law of Archangelsk Oblast of 23 September 2004, No. 258-extraordinary-OL, “On the status and borders of the territories of municipal formations in Archangelsk Oblast”. As for the actual parameters of this territory, they are quite incompatible both with the notions of a city okrug and with the international practice of establishing city okrugs. The archipelago’s population is only 2,7 thousand, while its total area is approximately 80,000 sq km (the data of RF Goskomstat as of 1 January 2004). The majority of this population is concentrated in the two workers’ settlements – Rogachiovo and Belushia Guba.

And finally, there is *the sixth group of regions* – those that created municipal raions, instead of city okrugs, on the territories of administratively independent cities and towns. For example, such policy was implemented by the regional authorities of Murmansk Oblast and Cheliabinsk Oblast. In Murmansk Oblast, the status of a municipal raion was granted to Kandalaksha – a city of oblast importance, together with the territory under its jurisdiction. In Cheliabinsk Oblast such towns are Yemanzhelinsk and Korkino.

The specific feature of these towns was that on the territories under their jurisdiction there existed urban-type settlements. As a result of reform, they received the status of urban settlements alongside those settlements that used to exist previously under their jurisdiction. Accordingly, in each of these towns two levels of authority were created: the administrative bodies of a municipal raion and those of an urban settlement.

Table 2.3

Results of Comparison of Numbers of Urban and Rural Settlements, Newly Created in Accordance with Law No. 131-FZ, with Number of Administrative-territorial Entities in Regions with Previously Existing Raion Model of Territorial Organization of Local Self-government

Regions with raion model of local self-government organization where number of newly created settlement municipalities, as compared with number of submunicipal structures, demonstrated changes as follows:					
increased	decreased				
	by less than 10%	by 10% to 40%	by 40% to 50%	by 50% to 80%	by more than 80%
Evenk AO	Republic of Dagestan	Rostov Oblast	Primorskii Krai	Ulianovsk Oblast	Taimyr (Dolgano-Nenets) AO
Republic of Buryatia	Republic of Udmurtia	Vologda Oblast	Tver Oblast	Komi-Permiak AO	Kaliningrad Oblast
Republic of Altay	Samara Oblast	Belgorod Oblast	Moscow Oblast	Tula Oblast	Sverdlovsk Oblast
Agin-Buriat AO	Kamchatka Oblast	Kaluga Oblast	Riazan Oblast	Yaroslavl Oblast	Sakhalin Oblast
Omsk Oblast	Irkutsk Oblast	Republic of Chuvashia	Perm Oblast		
Orenburg Oblast	Kostroma Oblast	Pskov Oblast	Evrejskaja AO		
	Yamal-Nenets AO	Archangelsk Oblast			
	Volgograd Oblast	Republic of Mariy El			
	Chita Oblast	Leningrad Oblast			
	Krasnodar Krai	Smolensk Oblast			
	Novgorod Oblast	Murmansk Oblast			
	Khanty-Mansi AO	Kemerovo Oblast			
	Tumen Oblast	Republic of Karelia			
		Chukotskii Autonomous Okrug			
		Republic of Komi			
		Kirov Oblast			
		Ivanovo Oblast			
		Saratov Oblast			
		Tomsk Oblast			

Table 2.4

Results of Comparison of Numbers of Urban and Rural Settlements, Newly Created in Accordance with Law No. 131-FZ, with Number of Administrative-territorial Entities in Regions with Previously Existing Settlement Model of Territorial Organization of Local Self-government

Regions with Settlement Model of Local Self-government Organization, where Number of Settlement Municipalities under New Legislation, as Compared to Number of Previously Existing Settlement Municipal Formations, Demonstrated Changes as Follows:

Increased (by no more than 10%)	did not Change	Decreased by no more than 15%
Republic of Khakassia	Republic of Tatarstan	Republic of Kalmykia
Karachaevo-Cherkesskaya Republic	Kursk Oblast	Republic of Adygeya
Nenets AO	Republic of Sakha (Yakutia)	
	Novosibirsk Oblast	
	Republic of Bashkortostan	
	Stavropol Krai	
	Penza Oblast	

Table 2.5

Results of Comparison of Numbers of Urban and Rural Settlements, Newly Created in Accordance with Law No. 131-FZ, with Number of Administrative-territorial Entities in Regions with Previously Existing Two-tier Model of Territorial Organization of Local Self-government

Regions with Two-Tier Model of Organization of Local Self-Government where the Number of Settlement-type Municipalities Under New Legislation, as Compared to Number of Previously Existing Settlement-type Municipal Formations and Submunicipal Structures (Alongside Existence of Some Raions with Raion Model), Demonstrated Changes as Follows:

Increased (by no more than 10%)	did not Change	decreased	
		by no more than 10%	by 20% to 70%
1	2	3	4
Nizhnii-Novgorod Oblast	Republic of Mordovia	Kurgan Oblast	Magadan Oblast
Astrakhan Oblast	Orel Oblast	Tambov Oblast	Briansk Oblast
Altay Krai		Lipetsk Oblast	Vladimir Oblast

1	2	3	4
		Khabarovsk Krai	
		Amur Oblast	
		Krasnoyarsk Krai	
		Republic of North Ossetia-Alania	
		Cheliabinsk Oblast	
		Republic of Kabardino-Balkaria	
		Koriak Autonomous Okrug	
		Voronezh Oblast	

Table 2.6

Classification of Regions Depending on their Policies in Granting Status of City Okrug to Urban Settlements

First Group of RF subjects (city okrugs are former cities and towns of oblast importance that under 1995 Law had status of administratively independent municipal formations)	
all cities and towns of oblast importance became city okrugs	some cities and towns of oblast importance became city okrugs
1	2
Republic of Buratija	Republic of Bashkortostan
Republic of Mary El	Republic of Tatarstan
Republic of Adygeya	Stavropol Krai
Republic of Altay	Khabarovsk Krai
Republic of Dagestan	Astrakhan обл
Republic of Kabardino-Balkaria	Archangelsk Oblast
Republic of Kalmykia	Vologda Oblast
Republic of North Osetia-Alania	Voronezh Oblast
Republic of Tyva	Kemerovo Oblast
Republic of Udmurtia	Kostroma Oblast
Republic of Chuvashia	Nizhnii-Novgorod Oblast
Altay Krai	Novgorod Oblast
Krasnoyarsk Krai	Omsk Oblast
Amur Oblast	Rostov Oblast

1	2
Belgorod Oblast	Saratov Oblast
Volgograd Oblast	Sakhalin Oblast
Kirov Oblast	Tver Oblast
Kurgan Oblast	Tomsk Oblast
Kursk Oblast	Tumen Oblast
Lipetsk Oblast	Khanty-Mansi AO
Magadan Oblast	
Murmansk Oblast	
Orel Oblast	
Penza Oblast	
Komi-Permiak AO	
Pskov Oblast	
Riazan Oblast	
Samara Oblast	
Tambov Oblast	
Smolensk Oblast	
Evrejskaja AO	
Yamal-Nenets AO	

Second Group of RF subjects
(city okrugs based on previously existing municipal formations - cities and towns
of oblast importance, towns of raion importance, US)

Briansk Oblast
Ivanovo oblast
Republic of Komi

Third Group of RF subjects
(previously existing municipal formations deprived of status of city okrug)

Cities and towns of oblast importance	towns of raion importance, US
Republic of Mordovija	Republic of Khakassia
Republic of Sakha (Yakutia)	Vladimir Oblast
Republic of Karelia	Kaluga Oblast
Krasnodar Krai	Kamchatka Oblast
Nenets AO	Moscow Oblast
Irkutsk Oblast	
Leningrad Oblast	
Novosibirsk Oblast	
Orenburg Oblast	

1	2
Perm Oblast	
Tula Oblast	
Cheliabinsk Oblast	
Chita Oblast	
Fourth Group of RF subjects	
(cities and towns of oblast importance, which previously had not been municipal formations, became city okrugs)	
Primorskii Krai (Spassk-Dal'nii, Ussuriisk and Lesozavodsk)	
Yaroslavl Oblast (Rybinsk)	
Fifth Group of RF subjects	
(city okrugs are created on territories of rural raions)	
Kaliningrad Oblast	
Tumen Oblast (Zavoudoukovsk raion)	
Moscow Oblast (Balashikha raion, Domodedovo raion)	
Sverdlovsk Oblast (all administrative raions, except Slobodo-Turinskii, Kamyshlovskii, Baikalovskii and Tiuborinskii raions)	
Murmansk Oblast (Kovdorskii raion)	
Kemerovo Oblast (city of Mezhdurechansk-Mezhdurechansk raion)	
Sakhalin Oblast (all raions, except Nevel'skii and Uglegorskii)	
Sixth Group of RF subjects	
(municipal raions are created on territories of cities and towns of oblast importance)	
Murmansk Oblast (Kandalaksha, with territory under its jurisdiction)	
Cheliabinsk Oblast (towns of Yemanzhelinsk, Korkino, Plast with territory under its jurisdiction)	

2.5. Conclusions

By mid-autumn 2005, in the territories of virtually all RF subjects the territorial model of local self-government organization had become fully implemented: the borders of municipal formations were established, and their status determined. As of 1 October 2005, a total of 24.5 municipal formations existed in Russia, most of them with the status of settlements. As a result, the number of municipal formations in the Russian Federation grew almost twofold. At the same time, the number of subjects of interbudgetary relations also increased by 5.7 times, because prior to the onset of reform many territories with the status of municipal formations had neither local budgets nor municipal property and, consequently,

could not be administratively independent participants in interbudgetary relations.

The analysis of the results of reform of the territorial foundations of local self-government has demonstrated that, despite the sufficiently detailed regulation of the process of establishing the borders of municipal formations and granting to them the appropriate status, the policies of regional bodies of state authority in this sphere varied significantly from region to region.

The greatest differences were observed in the establishment of the borders of rural settlements and in the granting of the status of a city okrug to urban settlements. As far as the determination of the territories of rural settlements is concerned, two basic approaches practiced by regional authorities can be pointed out. The first one is characterized by the creation of rural settlements in all the administrative-territorial entities that had previously been administered by submunicipal structures or had the status of settlement-type municipal formations. When applying the second approach, the regions were pursuing an active policy of uniting rural territories when creating settlements. It should be noted that the first approach was more often seen in those regions where previously there had existed a two-tier or a settlement model of local self-government organization. However, there were also some exceptions, such as Vladimir Oblast and Briansk Oblast, where an active policy of enlarging rural territories was being implemented. The policy of uniting village councils when forming the territories of rural settlements was most widespread in those regions where prior to reform the raion model of local self-government organization had existed. In 19 regions of this group, the number of settlements went down from 10% to 40% by comparison with the number of previously existing submunicipal structures, and in 10 regions – from 40% to 80%. In 4 regions this index was higher than 80%, which was primarily due to the policy of regional authorities aimed at preserving the one-tier model of local self-government organization by creating city okrugs based on rural raions.

The analysis of the policies being implemented by bodies of state authority at the regional level when endowing territories with the status of a city okrug has resulted in all the regions under study falling into six

groups, depending on the types of administrative-territorial entities that received this status. In the first and largest group, consisting of 46 regions, the status of a city okrug was granted to those cities and towns of oblast importance which under 1995 Law had enjoyed the status of administratively independent municipal formations. Another two regions (Briansk Oblast and the Republic of Komi) created city okrugs not only in their cities and towns of oblast importance, but also in the territories of towns of raion importance and urban-type settlements. In Yaroslavl Oblast and Primorskii Krai this status was also granted to some of those towns that previously had not had the status of a municipal formation.

Quite different approach was chosen by regional authorities in another 17 regions. In these RF subjects, on the contrary, the policy of depriving some towns and cities of their previous status of administratively independent municipal formations and making them part of the territories of municipal raions was pursued. There, not only towns under raion jurisdiction and settlements became urban settlements, but also some big cities of oblast importance (for example, Angarsk in Irkutsk Oblast, Gatchina and Volkhov in Leningrad Oblast, Neriungi in the Republic of Sakha (Yakutia), and some others).

Some regions, by taking advantage of gaps and flaws existing in federal legislation, went as far as to distort the logic of municipal reform and began either to create city okrugs on the basis of rural raions in order to preserve the raion model of local self-government, or to grant to cities and towns of oblast importance, with the territories under their jurisdiction, the status of municipal raions.

Annex 2.1. The Number of Municipal Formations in RF Subjects Prior to and after the Onset of Municipal Reform of 2003–2005

Region	Number of MF as of 1.10. 2005	Number of MF Prior to Reform of 2003–2006		Growth in Number of MF Resulting from Municipal Reform (times), as Compared to	
		Number of MF with Formal Status of MF	Number of MF with Administratively Independent Budgets and Municipal Property	Number of MF with Formal Status of MF	Number of MF with Administratively Independent Budgets and Municipal Property
1	2	3	4	2/3	2/4
Briansk Oblast	289	482	34	0.60	8.50
Magadan Oblast	53	66	9	0.80	5.89
Taimyr Autonomous Okrug	5	6	0	0.83	6.00
Amur Oblast	320	339	27	0.94	11.85
Republic of Khakassia	101	104	16	0.97	6.31
Krasnoyarsk Krai	559	574	57	0.97	9.81
Cheliabinsk Oblast	317	325	47	0.98	6.74
Republic of Mor-dovia ²	459	470	23	0.98	19.96
Voronezh Oblast	535	547	46	0.98	11.63
Republic of North Osetia-Alania	114	116	14	0.98	8.14
Republic of Dagestan	740	750	52	0.99	14.23
Tambov Oblast	352	353	30	1.00	11.73
Kurgan Oblast	458	459	459	1.00	1.00
Agin-Buriat Autonomous Okrug	42	42	Н.д.	1.00	No data

1	2	3	4	2/3	2/4
Republic of Kabardino-Balkaria	132	132	13	1.00	10.15
Koriak Autonomous Okrug	33	33	11	1.00	3.00
Orel Oblast	267	267	27	1.00	9.89
Lipetsk Oblast	331	324	20	1.02	16.55
Republic of Adygeya	57	55	9	1.04	6.33
Evenk Autonomous Okrug	25	24	24	1.04	1.04
Republic of Bashkortostan	1020	978	63	1.04	16.19
Altay Krai	797	764	71	1.04	11.23
Khabarovsk Krai	236	224	19	1.05	12.42
Kursk Oblast	540	511	511	1.06	1.06
Penza Oblast	431	407	32	1.06	13.47
Novosibirsk Oblast	490	460	460	1.07	1.07
Republic of Tatarstan	999	928	34	1.08	29.38
Republic of Kalmykia	128	116	14	1.10	9.14
Nizhnii-Novgorod Oblast	662	594	51	1.11	12.98
Stavropol Krai	330	290	209	1.14	1.14
Astrakhan Oblast	176	154	154	1.14	1.14
Karachaevo-Cherkessian Republic	96	84	13	1.14	7.38
Sverdlovsk Oblast	93	72	72	1.29	1.29
Sakhalin Oblast	25	19	19	1.32	1.32
Kaliningrad Oblast	36	22	22	1.64	1.64
Vladimir Oblast	127	74	35	1.72	3.63
Murmansk Oblast	42	24	17	1.75	2.47
Kamchatka Oblast	37	10	10	3.70	3.70
Kemerovo Oblast	223	55	34	4.05	6.56

1	2	3	4	2/3	2/4
Yamal-Nenets Autonomous Okrug	58	13	13	4.46	4.46
Evrejskaja Autonomous Oblast	36	8	6	4.50	6.00
Primorskii Krai	179	39	39	4.59	4.59
Khanty-Mansi Autonomous Okrug	105	22	22	4.77	4.77
Moscow Oblast	378	73	73	5.18	5.18
Komi-Permiak Autonomous Okrug	37	7	7	5.29	5.29
Yaroslavl Oblast	103	19	19	5.42	5.42
Chukotskii Autonomous Okrug	53	9	9	5.89	5.89
Kaluga Oblast	319	49	49	6.51	6.51
Tumen Oblast	319	49	49	6.51	6.51
Republic of Karelia	127	19	19	6.68	6.68
Ivanovo Oblast	181	27	27	6.70	6.70
Republic of Tyva	142	21	21	6.76	6.76
Perm Oblast	326	48	40	6.79	8.15
Tula Oblast	179	26	26	6.88	6.88
Ulianovsk Oblast	167	24	24	6.96	6.96
Tomsk Oblast	140	20	20	7.00	7.00
Leningrad Oblast	222	29	29	7.66	7.66
Rostov Oblast	463	55	55	8.42	8.42
Pskov Oblast	244	28	28	8.71	8.71
Archangelsk Oblast	229	26	26	8.81	8.81
Krasnodar Krai	426	48	48	8.88	8.88
Samara Oblast	342	37	37	9.24	9.24
Republic of Altay	103	11	11	9.36	9.36
Tver Oblast	405	43	43	9.42	9.42
Kostroma Oblast	303	31	30	9.77	10.10
Republic of Mariy El	169	17	17	9.94	9.94
Riazan Oblast	296	29	29	10.21	10.21

1	2	3	4	2/3	2/4
Irkutsk Oblast	392	37	37	10.59	10.59
Saratov Oblast	439	41	41	10.71	10.71
Kirov Oblast	482	44	44	10.95	10.95
Republic of Udmurtia	341	30	30	11.37	11.37
Republic of Komi	240	21	21	11.43	11.43
Chita Oblast	376	32	32	11.75	11.75
Republic of Chuvashia	317	26	26	12.19	12.19
Volgograd Oblast	491	39	33	12.59	14.88
Republic of Sakha (Yakutia)	448	35	35	12.80	12.80
Omsk Oblast	424	33	33	12.85	12.85
Republic of Buryatia	296	23	23	12.87	12.87
Smolensk Oblast	350	27	27	12.96	12.96
Orenburg Oblast	613	47	47	13.04	13.04
Novgorod Oblast	290	22	22	13.18	13.18
Vologda Oblast	372	28	28	13.29	13.29
Ust'-Ordynskii Buriatskii Autonomous Okrug	83	6	6	13.83	13.83
Belgorod Oblast	337	22	22	15.32	15.32
Republic of Chechnia	234	0	0	-	-
Total	24253	12602	4199	1.92	5.78

Source: Voprosy zakonodatel'nogo obespecheniia territorial'noi organizatsii mestnogo samoupravleniia. (Issues of legislative backing for the territorial organization of local self-government.) / Ed. by Mokryi S. // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, 2002, No. 8; Voprosy realizatsii federal'nogo zakona ot 6 oktiabria 2003 goda No. 131-FZ "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" (Issues relating to the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation") // Analyticheskii vestnik (The Analytical Herald), M.: Committee of the State Duma for issues of local self-government, Issue 4, 2005, Laws on regional budgets for the year 2004.

Chapter 3. Regional Specificities of the Transition Period of Municipal Reform

3.1. Federal Law No. 129-FZ: Variants of Implementation

As has already been described in Chapter 1, the crisis of municipal reform in the summer of 2004 led to the adoption of Federal Law No. 129-FZ. By this Law, the time for the coming into force of Law No. 131-FZ was changed, as well as the specific features of the execution of local self-government in newly created municipal formations during the transition period were defined, this period being recognized as that from the moment of publication of Law No. 131-FZ until 1 January 2009.

The introduction of amendments to Law No. 129-FZ resulted in the rates and timelines for municipal reform throughout the transition period being largely determined by the policy of a given region, and not by federal normative-legal acts. At the same time, in accordance with legislation, basic changes are now occurring not in all the settlements, but only the newly created ones. Thereby they do not involve those municipal formations that did have this status under the previous 1995 Law on local self-government (No. 154-FZ).

It should be noted that the term “newly created municipal formations” was not defined in legislative terms, which gave rise to discussions both among representatives of state authorities of RF subjects and among the experts’ community. Two approaches to the definition of this term have been developed so far.

The first one departs from the assumption that the signs of a newly created municipal formation are as follows 1) the establishment of new borders of a municipal formation, 2) its endowment with the status of a municipal raion, city Okrug or settlement. In accordance with this approach, all the settlements that previously had the status of municipal formations do not belong to the category of “newly created”.

The second approach is based on the notion that those settlements that, prior to the onset of municipal reform, did have the status of municipal formations but had no separate budget, municipal property and / or elective bodies of authority, can also be placed within the category of “newly cre-

ated municipal formations”²⁶. In accordance with this approach, nearly all the settlement must be recognized as newly created, because prior to reform of local self-government in 2003 the practice of financing the bodies of local self-government by estimate was very widespread in the Russian Federation, and the issue of property division was not completely resolved in the majority of regions with the two-tier and settlement models of the territorial organization of local self-government.

Despite the existence of two different interpretations of the term “newly created municipal formations”, in a vast majority of methodological recommendations developed at the Federation’s level the first approach has been applied. In particular, it was applied in the document developed by the RF Ministry for Regional Development, *Methodological Recommendations concerning the application, by subjects of the Russian Federation, of Federal Law of 12 October 2005, No. 129, “On introducing changes into Article 83 and 85 of the Federal Law “On general principles of the organization of local self-government in the Russian Federation”, the Federal Law “On introducing changes into the Budget Code of the Russian Federation in the part regulating interbudgetary relations”, and into Article 7 of the Federal Law “On introducing changes into Parts I and II of the Tax Code of the Russian Federation, and recognizing certain legislative acts (or provisions of legislative acts) of the Russian Federation on taxes and levies as null and void”*²⁷.

In these metodological recommendations, an attempt was made to explain the norms stipulated in Law No. 129-FZ. In particular, in that document it was stressed that the provisions stipulated in Law No. 129-FZ should apply to newly created settlements only, that is, those that were granted the status of municipal formations under Law No. 131-FZ. As far as all the settlements that had enjoyed the status of municipal formations prior to the coming into force of Chapter 12 of Law No. 131-FZ

²⁶ Pronina L. O novykh federal’nykh zakonakh, formuliruiushchikh pravovuiu i finansovuiu bazu dlia reformy mestnogo samoupravleniia. (Concerning the new federal laws that formulate the legal and financial base for reform of local self-government) // *Mestnoie samoupravleniie (Local self-government)*, No. 1 (136), 1–15 January 2006.

²⁷ For the full text of these metodological recommendations, see the website of the RF Ministry for Regional Development (<http://www.minregion.ru/OpenFile.ashx/Download?AttachID=182>).

are concerned, the provisions of Law No. 129-FZ were not to be extended to them.

Besides, in the *Methodological Recommendations* it is noted that the decision concerning the delegation of all or some of the issues of local importance of settlements to municipal raions represents an extraordinary measure, from 1 January 2006 to be resorted to only in an event of an objective impossibility for such issues to be resolved by settlements' bodies of local self-government. In this connection, it has been emphasized that the power to make decisions concerning the issues of local importance of settlements may be delegated only to the bodies of local self-government of those municipal raions which incorporate the territory of a given settlement. No other bodies of state authority and/ or bodies of local self-government of other municipal raions are allowed to deal with the issues of local importance of settlements. Also as an extraordinary measure, there has been mentioned the possibility of the activity of bodies of local self-government of settlements to be financed by estimate, the list of issues of local importance within their competence being limited.

These *Methodological Recommendations* also contain certain requirements concerning the laws issued by RF subjects and regulating the procedure for dealing with the issues of local importance in newly created settlements during the transition period. In particular, in the *Methodological Recommendations* the following is noted:

- such laws should be enacted for the first time before 1 January 2006, and thereafter – no later than three months prior to the beginning of a financial year;
- the laws are to be of direct effect, no municipal legal acts confirming the consent of bodies of local self-government to the norms stipulated in such a law being applied on their territories are required;
- it is advisable to specify in these laws the period during which the powers of decision-making concerning the issues of local importance of settlements are to be delegated to the level of municipal raions;
- it is preferable to apply in the laws, instead of formulations of issues of local importance, references to Law No. 131-FZ, which will thus make unnecessary any subsequent amendments to regional laws in an event of federal legislation being amended.

Thus, these methodological recommendations have made more clear the interpretation of the notion of “newly created municipal formations”, without, however, offering any explanations as to how “the procedure for resolving the issues of local importance” should be understood. In this connection, the bodies of state authority of regions have been forced to interpret this notion according to their own understanding of it. They were guided, to a certain extent, by the *Model legal act of a RF subject*, where the specific features of applying Federal Law of 6 October 2003 No. 131-FZ “On general principles of the organization of local self-government in the Russian Federation” are determined²⁸.

In this *Model legal act*, the following is envisaged:

- the establishment of the list of issues of local importance, the decision-making in respect to which is to be executed by the bodies of local self-government of newly created settlements, as well as their competence in respect to dealing with issues of local importance;
- the establishment of the list of issues of local importance, the decision-making in respect to which had been delegated to the bodies of local self-government of the municipal raion on whose territory the newly created settlements are located, as well as their competence in respect to dealing with such issues of local importance;
- the specific features of forming local budgets during the transition period;
- the budget revenues of municipal raions to be allocated to the issues of local importance of settlements;
- the specific features of the distribution of the regional fund for the financial support of settlements and the compensation fund;
- the specific features of the division of objects of municipal property;
- the period of the law being in operation.

By this model law, four variants of the division of the issues of local importance of settlements between the newly created settlements and municipal raions were suggested; also, for each of the variants the specific features of the resulting interbudgetary relations and the division of

²⁸ For the full text of this model legal act, see the websites of the RF Ministry of Finance (<http://www1.minfin.ru/rms/modelakt.pdf>) and the RF Ministry for Regional Development (<http://www.minregion.ru/WorkItems/SPage.aspx?PageID=281>).

municipal property between settlements and municipal raions were determined.

The first variant envisages that the powers for dealing with all the issues of local importance of settlements are to be left with the bodies of local self-government of newly created settlements. In this variant, all the revenues consolidated to settlements by federal legislation should be transferred to their budgets. They also should be able to dispose of all the objects of municipal property needed for providing adequate solutions to issues of local importance.

The second variant envisages that some issues of local importance of settlements should be delegated to those municipal raions within whose borders these newly created settlements are located. In this connection, it was suggested that a single list of all the issues of local importance of all the newly created settlements on the territory of a given region should be compiled, irrespective of their manpower potential, the status of tax base, or the availability of organizational and material resources in each settlement.

Within the framework of this variant, it was intended that the bodies of local self-government of newly created settlements should keep their powers to deal with the following issues of local importance:

- the formation, approval, and execution of a settlement's budget, as well as the control over its execution;
- the ownership, use and disposal of municipal property (with the exception of property being transferred without compensation to municipal raions, to be used by them in dealing with the settlements' issues of local importance delegated to them);
- participation in the prevention and liquidation of the consequences of emergency situations arising within the borders of a given settlement;
- the provision of primary measures of fire safety within the borders of the population units within a given settlement;
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services;

- the creation of appropriate conditions for leisure and the provision of the residents of a settlement with the services of cultural organizations;
- adequate preservation of objects of cultural heritage (monuments of history and culture) located within the borders of a settlement;
- the creation of adequate public recreation conditions for the residents of a settlement, and the organization of adequate equipment of popular public recreation sites;
- aid in the establishment, in accordance with the Federal Law, of trusteeship and guardianship over those residents of a settlement who are in need of such trusteeship and guardianship;
- the formation of a settlement's archival funds;
- the organization of collection and removal of domestic waste and litter;
- the organization of the provision of all amenities and the planting of urban greenery on the territories of settlements, adequate use and protection of urban forest areas located within the borders of the population units of a settlement;
- the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of documentation prepared on the basis of these general plans for the planning of the territory of a settlement, the issuing of permits for construction and permits for certain objects to be put in operation, the approval of local urban construction norms for the planning of settlements, the reservation and withdrawal, including by buying-out, of plots of land within the borders of settlement needed for municipal use, and the execution of land control over the use of a settlement's lands;
- the organization of street lighting and setting-up of signs with names of streets and numbers of buildings;
- the organization of funeral services and the maintenance of cemeteries.

It was suggested that all the other issues of local importance were to be delegated to the level of municipal raions. The most important among the powers being delegated were those in respect to imposing local taxes

and levies, those in the sphere of HUS, public transport services and roads, as well as the powers pertaining to the provision of housing to citizens with low income²⁹. As can be seen from this list of issues, the authors of the model document intended that the powers in respect to a considerable number of issues of local importance were to remain with the local bodies of settlements, while those in respect to issues requiring a certain qualification level of municipal officials and a certain volume of resources be delegated to the level of municipal raions.

In the third variant suggested in the model act it was envisaged that RF subjects should, when issuing their laws, take into account the status of tax bases, as well as the availability of personnel, organizational and material resources in each settlement or a group of settlements, in order to offer different lists of issues of local importance for each of the newly created settlements (or groups of settlements) on the territories of RF subjects. It was recommended that such lists were to be attached as annexes to those regional laws that were to determine the specific features of implementing Federal Law No. 131-FZ in RF subjects.

The fourth variant envisaged that all the issues of local importance in newly created settlements should be dealt with by the bodies of local self-government of those municipal raions that incorporated each of these settlements. The only issue of local importance to be left within the competence of the bodies of local self-government of newly created settlements was the ownership, use and disposal of a settlement's municipal property. The exception was to be represented by property being transferred without compensation to a municipal raion, to be used in finding solutions to issues of local importance in newly created settlements.

In the sphere of interbudgetary relations, in an event of the choice being made in favor of any of the last three variants of the redistribution of the issues of local importance between newly created settlements and

²⁹ It should be noted that the model law in question does not fully conform with the recommendations issued by the RF Ministry for Regional Development, because it contains full descriptions of issues of local importance instead of references to the corresponding norms stipulated in Law No. 131-FZ. Thus, in an event of this document being adopted at the regional level, the introduction of any amendment to federal legislation will either entail appropriate amendment to be made to regional laws, or will result in different terminologies being applied to issues of local importance in regional and federal legislation.

municipal raions, it was suggested that all or a part of the revenues consolidated by federal legislation to the budgets of settlements should be transferred to the budgets of municipal raions. The size of revenues being transferred to the level of municipal raions should depend on the volume of their powers. In this connection, the model normative act should envisage the possibility of providing the financing for the activity of the bodies of local self-government of newly created settlements by an estimate of revenues and expenditures, approved by the representative body of a municipal raion.

Besides, within the framework of the second, third and fourth variants, for purposes of adequate solutions being provided to issues of local importance by the bodies of local self-government of municipal raions, it was recommended that all the necessary property owned by settlements should be transferred to them, to be used without compensation.

Thus, the developed model law of a RF subject, which determined the specific features of implementing municipal reform during the transition period, not only offered a definition of “the procedure for resolving the issues of local importance faced by settlements”, but also provided RF subjects with possible approaches to executing local self-government in newly created settlements during the transition period.

3.2. The Practices of Implementing Federal Law No. 129-FZ in RF Subjects in 2006

For purposes of analyzing the ways in which Law No. 129-FZ was being implemented in actual practice, we reviewed regional legislation regulating the procedure for resolving the issues of local importance in newly created settlements throughout the transition period in 68 RF subjects. For detailed analysis of the legislations adopted in these regions, see *Annex 3.3.* to this Chapter. The study also involved those 13 regions on whose territories there were no newly created settlements, and, consequently, all powers were in full transferred to settlement municipalities in 2006. Within the framework of this study, it was impossible to analyse the situations in 3 regions, for absence of the texts of their normative-legal acts in publicly accessible legal databases.

It should be noted that the periods of operation of different regional laws regulating the procedure for decision-making concerning the issues of local importance of newly created settlements vary³⁰. In 16 regions, the laws are in operation throughout the three years of the transition period, while in 2 regions (Belgorod Oblast and Novgorod Oblast) – during two years, and some of the provisions contained in the law of Novgorod Oblast are to be in operation for one year only. In 24 regions the laws on the procedure for the issues of local importance to be dealt with by the bodies of local self-government of newly created settlements were adopted for the period of one year. In 14 regions the periods of operation of such laws were not specified. Therefore, there exist two variants of the further development of legal regulation in those regions:

- the law will be in operation throughout the whole period of transition, and thereafter, in accordance with federal legislation, all the powers pertaining to the decision-making in respect to issues of local importance will be transferred to the bodies of local self-government of settlements;
- the law will be in operation during the year 2006 only, and thereafter another legislative act for the regulation of these issues will be adopted.

In four regions (Archangelsk Oblast, Ivanovo Oblast, Vladimir Oblast and Krasnodar Krai), by regional legislation there has been approved a schedule for a step-by-step transition to the full-scale implementation of municipal reform, which envisages gradual expansion of the powers granted to newly created settlements.

The content and scope of all these regional laws also vary. The laws of some regions address only the distribution of issues of local importance between municipal raions and settlements during the transition period, while the issues pertaining to the division of property and financial resources remain beyond the areas regulated by these laws. The examples are the Republic of Khakassia, Nizhnii-Novgorod Oblast, Pskov Oblast, and some others. In other regions, the laws on the specific features of implementing Law No. 131-FZ have succeeded in regulating all the issues

³⁰ For the information concerning the periods of effect of the laws regulating the specific features of implementing Federal Law No. 131-FZ in RF subjects, see *Annex 3.1*.

relating to the execution of local self-government in newly created settlements during the transition period. As examples of sufficiently detailed regulations of “the rules of game” established for the newly created settlements in transition period, the laws of Tver Oblast, Moscow Oblast, Kemerovo Oblast and Orenburg Oblast can be pointed out.

In the sphere of division of issues of local importance between newly created settlements and municipal raions, as has been shown by our analysis of existing legislation, the majority of regions have chosen one of the approaches suggested in the *Model legal act of a RF subject*. In some instances, it may be difficult to determine which particular model for implementing municipal reform during the transition period has indeed been selected, the reason, as a rule, being the possibility of several interpretations of the norms stipuated in the law, as well as the varying practices of their actual application.

According to the results of our analysis, all the regions could be divided into four groups in accordance with their chosen approaches to executing local self-government in their newly created settlements during the transition period, as suggested in the *Model legal act of a RF subject*. Consequently, the first group encompassed those regions where the decision-making in respect to all the issues of local importance settlements was delegated to the bodies of local self-government of newly created settlements. The second group consisted of the regions where the issues of local importance faced by settlements were divided between the settlement level and the level of municipal raions, while single lists of issues of local importance were established for all the newly created settlements on their respective territories. In the third group there were the regions that have chosen different approaches to each of the municipal raions, settlements or groups of settlements located on their territory. In other words, these regions established different lists of issues of local importance for different settlements or groups of settlements. And, finally, to the fourth group belonged all those regions where, by regional laws, the decision-making in respect to all the issues of local importance faced by settlements was delegated to municipal raions.

It should be noted that in all the groups of regions categorized in accordance with the aforesaid criteria, with the exception of the fourth

group, the practice of transferring the powers granted to the bodies of local self-government of settlements in their decision-making concerning the issues of local importance to the level municipal raions by special agreements has become rather widespread. In most cases, however, the process of transferring the powers by agreement was initiated by the regional bodies of state authority or the bodies of local self-government of municipal raions, and not by the bodies of local self-government of settlements. As a result, while the powers in respect to a considerable spectrum of issues of local importance were formally consolidated by RF subjects' laws to the bodies of local self-government of the newly created settlements, in actual practice they quite often could keep only some of their powers. By way of example, we can describe how such agreements were organized in the Republic of Chuvashia and in Vologda Oblast, which belong to the first group of regions, that is, their regional laws contain provisions that municipal reform should be implemented in full beginning from 1 January 2006.

In the Republic of Chuvashia, a model agreement was developed at the regional level, with a list of powers to be delegated by settlements to the level of raions, as recommended by the Republic's bodies of state authority. Among such powers, there were those pertaining to the development of municipal normative-legal acts regulating the budgeting process in settlements, the management of municipal property, the setting of tariffs, the preparation of draft general plans and other documents relating to the use and development of lands. Besides, it was recommended to delegate to the level of municipal raions the powers of representing the interests of the bodies of local self-government of settlements to judicial bodies.

As one can see from the aforesaid list, it was recommended that such delegation of powers to the level of municipal raions should be effectuated in respect to those powers the execution of which requires high qualification on the part of municipal officials, and from this point of view it all appears to be well-justified. On the other hand, municipal normative-legal acts should formalize the political decisions made by the bodies of local self-government of settlements, and therefore these documents should be developed with the participation of representatives of

settlements and under their control. It should be noted that the indisputable advantage of the Republic of Chuvashia consists in the fact that it is the powers only that are delegated by agreements, and not the issues of local importance proper, as it happens in many other regions.

In addition to agreements signed by bodies of local self-government of settlements and municipal raions and based on the model agreement, some instances have already become known in the Republic of Chuvashia when bodies of local self-government transferred, by agreement, to municipal raions their powers relating to the generation, execution, control over execution and the administration of revenues received by the budgets of rural settlements. For these purposes, in many of the Republic's raions centralized accounting departments have been created, which are responsible for the keeping of accounting records and reporting for each newly created settlement. Separate agreements have been concluded between local administrations of settlements and the centralized raion-level library system responsible for the organization of library services and the provision of information services to residents.

The drawback of the agreements concluded in the Republic of Chuvashia is that the execution of the powers delegated to the raion level are financed not at the expense of subventions from the settlement budgets, but from the funds of municipal raions, which presently is contrary to federal legislation.

In Vologda Oblast, the process of making agreements in the majority of cases has been initiated by the bodies of local self-government of municipal raions, which have also developed model agreements and encouraged the bodies of local self-government of settlements to enter into such agreements. As a result, by these agreements considerable powers in the sphere of organization and rendering of services to the population have been delegated to the raion level. It should be noted that, in some cases, by these agreements not just certain powers relating to issues of local importance were transferred, but the whole bulk of those issues proper. As a result, the settlements do not even have the competence to exercise control over the execution of powers delegated to the raion level. Besides, even the calculation of the size of subventions earmarked for the compensation of the expenditures of municipal raions associated with the execu-

tion of powers delegated to them by the agreements is performed by the raion bodies of local self-government, while the bodies of settlements have no power of control of either the correctness of the calculation of subventions, nor of their targeted allocation.

It should be noted that, in course of implementing municipal reform in 2006, the agreements concerning the transfer of the powers of settlements to the raion level have been a typical feature not only of newly created settlements, but also of those settlements that under the 1995 Law, “On general principles of the organization of local self-government in the Russian Federation”, had the status of municipal formations. In particular, in all the raions of Cheliabinsk Oblast it was suggested that all settlements, both previously existing and newly created ones, delegate to the level of raions the powers relating to the provision of library services to the population and the organization of other services in the sphere of culture.

Besides initiating the procedures of making such agreements, some regions have also been applying other methods in order to restrict the independence of newly created municipal formations at the settlement level. In particular, in Tumen Oblast a referendum was held even prior to the enactment of Law No. 129-FZ, which addressed the following issues:

- the approval of the structure of bodies of local self-government;
- the approval of the Charter of a municipal formation;
- the transfer, to a municipal raion, of some of the issues of local importance assigned to settlements.

Within the framework of the first question, it was suggested that the respondents should agree to a single model, without any alternatives, which involved the following:

- the whole representative body of a settlement would operate on a non-constant basis;
- the head of a rural settlement would serve as a co-chairman of a settlement’s representative body, be elected from among deputies, with due regard for the head of a municipal raion’s opinion, and work on a non-constant basis;
- the head of the administration of a rural settlement would occupy this post on the basis of a contract concluded by the results of a contest,

where 50% of the members of the contest commission would be appointed by the assignment of the head of the municipal raion;

- the procedure for expressing the opinion of a raion's head concerning the candidates to the post of the head of a settlement and that of the head of a rural administration would be consolidated in the Charter of a municipal formation.

As part of the third set of questions, the respondents were asked to agree for the bodies of local self-government of a settlement to delegate to the bodies of local self-government of a municipal raion the task of executing their powers in respect to 16 (out of 27) issues of local importance. The answer to that question implies the agreement or disagreement concerning all the 16 items simultaneously, the residents having no opportunity to express their agreement to the transfer of powers in respect to some issues of local importance, and disagreement in respect to the others. There was no differentiation by the type of a rural population unit, its population number, or its economic and manpower potential.

It is noteworthy that this initiative emerged in a region which can be regarded as being relatively "good" from the point of view of implementation of reform of local self-government. From 1996 to 2001, in Tumen Oblast the settlement model of the territorial organization of local self-government was predominant, where municipal formations at the settlement level were administratively independent and had their own budgets. In one of the oblast's raions the settlement model was preserved until recently.

Below we are going to discuss in more detail the specific features of implementing reform of local self-government during the transition period in each group of regions.

The first group includes regions where municipal reform is being implemented in full from 1 January 2006. The total number of such regions is 43, including 11 regions without newly created settlements, and, consequently, Federal Law No. 129-FZ does not apply to them. Among the regions studied in our sample, there are 30 regions where by regional laws it has been established that during the transition period of municipal reform the newly created settlements do have the right to make decisions concerning the issues of local importance consolidated to settlements by

federal legislation. The complete list of regions belonging to the first group is shown in *Table 3.1*.

Table 3.1

**Regions where municipal reform is being implemented
in full from 1 January 2006**

Regions on whose Territories there are no Newly Created Settlements	Regions which Established by their Laws that Newly Created Settlements are to Make Decisions Concerning all Issues of Local Importance from 1 January 2006
Agin-Buriat Autonomous Okrug	Republic of Altay
Republic of Kabardino-Balkaria	Republic of Buryatia
Karachaevo-Cherkessian Republic	Republic of Dagestan
Kurgan Oblast	Republic of Mariy El
Kursk Oblast	Republic of Mordovia
Nenets AO	Republic of Sakha (Yakutia)
Novosibirsk Oblast	Republic of Tyva
Orel Oblast	Republic of Chuvashia
Penza Oblast	Altay Krai
Republic of Kalmykia	Stavropol Krai
Republic of North Osetia-Alania	Krasnojarskii Krai
Tambov Oblast	Perm Krai
Evenk AO	Khabarovsk Krai
	Astrakhan Oblast
	Bryansk Oblast
	Volgograd Oblast
	Vologda Oblast
	Voronezh Oblast
	Irkutsk Oblast
	Kaluga Oblast
	Kirov Oblast
	Kostroma Oblast
	Leningrad Oblast
	Lipetzk Oblast
	Omsk Oblast
	Rostov oblast
	Smolensk Oblast
	Ulianovsk Oblast
	Chita Oblast
	Ust'-Ordinskii Buratskii AO

Source: Laws of RF subjects establishing the specific features of the implementation of Federal Law No. 131-FZ on their territories during the transition period.

As can be seen from *Table 3.1*, among the regions in the first group there are Stavropol Krai and Novosibirsk Oblast, which represent pilot regions for the implementation of municipal reform, and where municipal reform began as early as 2005. The specific features of reforming local self-government in these regions are dealt with in Chapter.

In four regions of the first groups (Perm Krai, Astrakhan Oblast, Leningrad Oblast and Smolensk Oblast), by the laws regulating the execution of local self-government during the transition period on the territories of settlements, certain requirements have been established which, if they are complied with, enable settlements to enjoy the right to all the powers consolidated to them by federal legislation from 2006 onward.

In Perm Krai and Smolensk Oblast, the requirement was the existence, in settlements, of fully developed bodies of local self-government. If a settlement does not meet this requirement, all its powers are to be executed by the bodies of local self-government of a municipal raion.

In this connection, legislation of Perm Krai³¹ has established that all the settlements, including those where the bodies of local self-government are not fully equipped with necessary resources, are to have their own budgets. The budgets are to be formed by the bodies of local self-government of municipal raions, while the powers of approving the budgets belong to settlements. Within one month after the formation of the bodies of local self-government has been completed, all the powers for resolving the issues of local importance are to be delegated to them, together with the necessary objects of municipal property. The powers for budget execution are also transferred to the settlement level.

In contrast to that of Perm Krai, the law of Smolensk Oblast³² does not envisage the transfer of powers for dealing with issues of local importance to settlements, where as of 1 January 2006 no bodies of local self-government have as yet been in existence, until 1 January 2007, even if such bodies should appear before this date.

³¹ Law of Perm Krai of 29 December 2005, No. 1-KZ, "On the procedure for settling the issues of local importance in the newly created settlement in Perm Krai".

³² Law of Smolensk Oblast of 16 December 2005, No. 133-Z, "On the procedure for settling the issues of local importance in the newly created urban and rural settlements in Smolensk Oblast".

In Astrakhan Oblast the operation of the law regulating the procedure for decision-making concerning the issues of local importance in newly created settlements³³ extends only to those settlements where prior to 1 January 2006 no budgets of their own were adopted. To all the other newly created settlements all the powers envisaged in federal legislation have already been transferred in full in 2006. According to the available information, only five of the 23 newly created settlements in the oblast have been unable to begin the execution of their powers this year.

In Leningrad Oblast, two laws have been passed: one establishes that newly created settlement are to make decisions concerning the full range of their issues of local importance from 2006 onward³⁴, while the other delegates the powers of decision-making concerning the issues of local importance in four settlements to the authorities of those municipal raions on whole territories these settlements are located³⁵. According to the information published by the Administration of Leningrad Oblast, this decision was adopted due to the fact that in those settlements no bodies of local self-government had been formed by the beginning of the financial year.

Certain specific features of the execution of local self-government in 2006 were also characteristic of Volgograd Oblast, where the power of decision-making concerning all issues of local importance has formally been delegated to newly created settlements, while at the same time in 2006 they do not as yet have the most important power – that of forming and executing their own budgets. Without this right they cannot be regarded as fully independent participants in interbudgetary relations. Besides, by Law of Volgograd Oblast it is established that, if the representative body of a settlement does not approve its budget, the financing there is to be done by estimate. In this situation settlements are forced to approve budgets formed by the bodies of authority of municipal raions,

³³ Law of Astrakhan Oblast of 26 December 2005, No. 77/2005-OZ, “On the procedure for settling the issues of local importance in the newly created settlements in Astrakhan Oblast”.

³⁴ Oblast Law of Leningrad Oblast of 12 December 2005, No. 115-OZ, “On the procedure for settling the issues of local importance settlements during the transition period”.

³⁵ Oblast Law of Leningrad Oblast of 26 December 2005, No. 120-OZ, “On the procedure for settling the issues of local importance in settlements by bodies of local self-government of certain municipal raions during the transition period”.

even if the allocation of funds in such a budget is contrary to the political priorities set by the settlement.

In the Republic of Mariy El, which also belongs to the first groups, in 2006, the powers for establishing and abolishing local taxes, as well as for the execution of settlements budgets, have been delegated to the level of municipal raions.

The second group of regions incorporates those regions where some of the issues of local importance have been consolidated by regional laws to municipal raions for the whole period of transition. The total number of regions in this group is 26. The complete list of regions in this group is presented in *Table 3.2*.

As can be seen from the table, by the regions of this groups a total of between 3 and 22 issues of local importance have been delegated to the settlement level. In two regions within this groups, a step-by-step transition to a full-scale implementation of reform of local self-government is envisaged. In Krasnodar Krai, to the newly created settlements the powers of decision-making in respect to 24 issues of local importance have been delegated, while in 2007 they are going to deal with 27 issues on the federal list, and in 2008 year – with all the 30 issues. In Ivanovo Oblast, in 2006 the settlements are to make decisions concerning 15 issues of local importance, in 2007 – 20 issues, in 2008 – 21 issues.

An analysis of the list of issues of local importance delegated to the level of settlements in 2006³⁶ has shown that most often to that level the following issues of local importance are assigned (in brackets the number of this group's regions is shown which have delegated the power to deal with that particular issue of local importance to newly created settlements):

- the organization of street lighting and the putting-up of signs with the names of streets and numbers of buildings (23 of 26 regions in this group);
- the provision of primary fire safety measures within the borders of the population units in each settlement (23 regions);

³⁶ Complete list of issues of local importance.

- the organization of collection and removal of domestic waste and litter (22 regions);
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services (22 regions);
- the creation of adequate public recreation conditions for the residents of a settlement, and the organization of adequate equipment of popular public recreation sites (22 regions);
- aid in establishing, in accordance with the Federal Law, of trusteeship and guardianship over those residents of a settlement who are in need of such trusteeship and guardianship (21 regions);
- the organization of the provision of all amenities and the planting of urban greenery on the territories of settlements, adequate use and protection of urban forest areas located within the borders of the population units of a settlement (21 regions);
- the organization of funeral services and the maintenance of cemeteries (21 regions).

The issues of local importance that have been delegated to municipal raions in the majority of cases were as follows (in brackets the number of this group's regions is shown which have delegated the power to deal with that particular issue of local importance to newly created settlements):

- the organization and execution of measures of mobilization readiness of municipal enterprises and institutions located on the territories of settlements (23 regions of the 26 in this group);
- aid in the development of agricultural production, the creation of appropriate conditions for the development of small-size businesses (23 regions);
- the creation, upkeep and organization of the operation of salvage and rescue services and (or) salvage and rescue units on the territories of settlements (23 regions);
- the calculation of housing and utilities subsidies and the organization of the provision of these subsidies to citizens who have the right to such subsidies in accordance with housing legislation (23 regions);

- the establishment, changes to and abolition of local taxes and levies in settlements (19 regions);
- the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget (176 regions)³⁷.

It should be noted that in actual practice none of the regions within this group have applied the Methodological Recommendations issued by the RF Ministry for Regional Development, or set the list of issues of local importance to be delegated to the level of settlements in the form of references to the federal law. As a result, the definitions of some issues of local importance currently applied in the regional laws do not correspond to those existing in federal legislation, because the latter have been altered by later federal laws.

The recommendations in the model law of a RF subject concerning the division of issues of local importance between municipal raions and newly created settlements have not been reflected in the regional laws, either. Actually, none of the regions of the second groups have established for their settlements the list of issues of local importance as recommended by the model law, with the exception of the Republic of Khakassia where the whole recommended list of powers was transferred to newly created settlements, the only one withheld being the power to develop and approve urban construction documentation.

Besides, some regions have changed the definitions of issues of local importance, most often by reducing the powers of municipal formations. In some instances the regional authorities also divided some issues of local importance between settlements and raions. In particular, in certain regions the powers for approving the general plans of settlements have been transferred to municipal raions, while those for the approval of the documentation prepared on the basis and pertaining to the planning of territories and issuing of permits construction and phasing-in of different objects – to settlements. In actual practice, this resulted in a situation when the bodies of local self-government of settlements sometimes refuse to issue construction permits under the pretext that they have not approved the general plan and other land-developing documents.

³⁷ This is the number of those regions where the budgeting powers have been delegated to settlements in full.

The specificity of the structure of the majority of regional laws in this sphere is that very few of them have established lists of issues of local importance for both levels of municipal authority. As a result, the issues of local importance of either the settlement or the raion level are dealt with by “the principle of residuality”, which implies the authority of a certain level to make decisions concerning those issues that have not been consolidated to another level of authority. Accordingly, when the list of issues of local importance is expanded at the federal level, new issues, “by default”, are delegated to those municipal formations whose competence has not been defined explicitly.

When discussing budget powers, it should be noted that local budgets exist only in 9 of the 23 regions in this group, while in the other groups the activity of the bodies of local self-government of newly created settlements is financed on the basis of estimates of their revenues and expenditures, which are part of the budget of a municipal raion. At the same time, the settlements in the Republics of Khakassia and Bashkortostan, in Orenburg Oblast, Tumen Oblast and in Krasnoyarsk Krai, in accordance with the law, enjoy the budgeting powers, that is, they can form, approve and execute their own budgets, as well as control their execution.

In Tver Oblast, in Khanty-Mansi Autonomous Okrug and in Samara Oblast the bodies of local self-government of settlements can only approve their budgets and subsequently control its execution (or approve budget execution reports). In Khanty-Mansi Autonomous Okrug it has been envisaged that settlements can be financed by estimate in an event of their budgets having not been approved before the beginning of the 2006 financial year.

Also, these regions have treated in different ways the issue of the division of revenues between settlements and raions. In Tver Oblast, to the raion level all the tax revenues envisaged in the RF Budget Code as due to the budgets of settlements have been consolidated. To the budgets of settlements, financial aid and revenues other than taxes are transferred³⁸. Similar situations exist in Bashkortostan and Samara Oblast.

³⁸ For more details concerning the interbudgetary relations in Tver Oblast, see subsections 4.2.3 and 4.3.3.

In Orenburg Oblast, in Tumen Oblast and in the Republic of Adygeya it is envisaged that tax revenues should also be transferred to the budgets of settlements. In Tumen Oblast, normative deductions are established in accordance with the Budget Code, while in Orenburg Oblast the personal property tax is transferred to the budgets of settlements, as well as 80% of the land tax and 30% of the agricultural tax. In the Republic of Adygeya, no normative tax deductions due to the budgets of settlements have been established, while the powers for determining these norms have been delegated to the level of municipal raions.

In the Republic of Khakassia, the Law "On the procedure for settling the issues of local importance of newly created municipal formations (rural and urban settlements) of the Republic of Khakassia" contains no regulations concerning the issues of the division of revenue sources. By the law on the Republic's budget it has been determined that revenues other than taxes are to be transferred to the budgets of settlements. There is no information as to any other revenue sources being available to settlements. In Krasnodar Krai and in Primorski Krai, the budgets of settlements are formed only on the basis of financial aid being transferred from the budgets of municipal raions.

It should be noted that the laws of RF subjects that determine the procedure for resolving the issues of local importance in newly created settlements during the transition period in many instances have failed to properly regulate the procedure for property division between municipal raions and settlements. Detailed regulation of the procedures for dividing the objects of municipal property can be found, e. g., in the laws of Moscow Oblast, the Republic of Karelia, the Republic of Komi, Belgorod Oblast, Kemerovo Oblast, Orenburg Oblast and Riazan Oblast. In the Republic of Tatarstan, Primorski Krai and Koriak Okrug it is envisaged that the bodies of local self-government may use, free of charge, the objects owned by municipal raions that are necessary for dealing with those issues of local importance that have been delegated to them. In the other regions this issue has remained unregulated, as far as their laws are concerned.

Table 3.2

**Specific Features of the Implementation
of Local Self-government Reform in Regions
of the Second Group in 2006**

	Number of Issues of Local Importance Delegated to Newly Created Settlements	Method of Financing for Bodies of Local Self-government of Settlements	Existence of Budgeting Powers
1	2	3	4
Nizhnii-Novgorod Oblast	3	by estimate	none
Republic of Tatarstan	5	-”-	-”-
Saratov Oblast	10	-”-	-”-
Khanty-Mansi Autonomous Okrug – Yugra	10	budget	in part
Murmansk Oblast	11	by estimate	none
Pskov Oblast	11	by estimate	none
Tumen Oblast	11	budget	fully
Riazan Oblast	12	by estimate	none
Republic of Adygeya	13	budget	fully
Evrejskaja Autonomous Oblast	14	-”-	-”-
Moscow Oblast	15	-”-	-”-
Sverdlovsk Oblast	15	-”-	-”-
Ivanovo Oblast	15 – in 2006, 20 – in 2007, 21 – in 2008	-”-	-”-
Republic of Karelia	16	-”-	-”-
Republic of Komi	16	-”-	-”-
Republic of Udmurtia	16	-”-	-”-
Kemerovo Oblast	16	-”-	-”-
Tver Oblast	16	budget	in part

1	2	3	4
Republic of Bashkortostan*	16	budget	fully
Koriak Autonomous Okrug	16	by estimate	none
Republic of Khakassia	20	budget	fully
Primorskii Krai	20	by estimate	none
Belgorod Oblast	20	-"-	-"-
Samara Oblast	20	budget	in part
Orenburg Oblast	21	budget	fully
Krasnodar Krai	24 – in 2006, 27 – in 2007, 30 – in 2008 .	budget	fully

* The data on the Republic of Bashkortostan presented here are based on our assumptions only, because the Law contains the list of issues of local importance assigned to raions and no mention of the "principle of residuality" in respect to the procedure for consolidating such issues to settlements.

Source: Laws of RF subjects establishing the specific features of the implementation of Federal Law No. 131-FZ in their territories during the transition period.

Into the third group of regions, those 9 RF subjects were included where different rates for the implementation of municipal reform were established for different groups of newly created settlements. These regions are Archangelsk Oblast, Vladimir Oblast, Kaliningrad Oblast, Kamchatka Oblast, Novgorod Oblast, Tomsk Oblast, Tula Oblast, Cheliabinsk Oblast and Yamal-Nenets Autonomous Okrug.

In Archangelsk Oblast, special procedure for the operation of local self-government has been introduced for Solovetskoe settlement, whose bodies of authority are allowed to make decisions concerning all issues of local importance since 1 January 2006. For all other newly created settlements, a step-by-step transition to the full-scale implementation of municipal reform is envisaged, while in 2006 they have been delegated 23 of 30 issues of local importance. Besides, all the newly created settlement (except Solovetskoe) are subdivided into two groups. The first group consists of all urban and some rural settlements of the nine municipal raions which have been granted the right to form their own budgets. All other settlements are financed by estimate.

In Novgorod Oblast, the lists of those issues of local importance that are being transferred to newly created settlements have been established for each raion separately. At the same time, between 8 and 10 issues of

local importance are delegated to the settlement level. All settlements are financed by an estimate of their revenues and expenditures.

In Vladimir Oblast there exist different rates for implementing municipal reform in urban and rural settlements. To urban settlements, in 2006 the right to deal with 16 issues of local importance had been delegated, in 2007 they will be delegated 18 such issues, and in 2008 – 23. In rural settlements reform is being implemented at a slower rate: in 2006 they are to be delegated 12 issues of local importance, in 2007 – 13, in 2008 – 18. Similarly to Novgorod Oblast, all settlements are being financed by estimate.

The specific feature of Kaliningrad Oblast is that on most of its territory there have been created city okrugs based on rural raions. Three entities have retained the status of municipal raions: Gvardeiskii, Pravdinskii and Zelenogradskii. In these raions, there exist a total of 10 newly created settlements. By the Law of Kaliningrad Oblast, in 2006 to all the settlements in Pravdinskii and Gvardeiskii raions and to three settlements in Zelenogradskii raion the right of decision-making in respect to 8 issues of local importance has been delegated; the most significant among these issues are as follows: the organization of the provision of HUS services to the population, the creation of appropriate conditions for the provision of transportation services to the population, the maintenance and construction of local roads and the issue of territorial planning and land development. In the territories of the two other settlements in Zelenogradskii raion (Zelenogradskii urban settlement and Kovrovskii rural settlement) all the issues of local importance are dealt with by raion authorities.

In Kamchatka Oblast, settlements in 2006 are grouped by raions: in 5 municipal raions (Aleutskii, Bystrinskii, Yelizovskii, Ust'-Kamchatskii) to the settlement level the decision-making in respect to 21 of 30 issues of local importance determined in federal legislation has been delegated. In three other raions, on the contrary, the great majority of issues of local importance have been assigned to the raion level. To settlements only the powers pertaining to the ownership, use and disposal of municipal property of settlements were left. All settlements are financed by estimate.

In Tula Oblast and Tomsk Oblast, as well as in Kamchatka Oblast and Novgorod Oblast, the content of the lists of issues of local importance

delegated to newly created settlements is determined by those raions on whose territories they are located. All settlements are financed by estimate.

In Cheliabinsk Oblast, to the majority of newly created settlements the decision-making in respect to 15 issues of local importance has been delegated. For all the settlements in Kartalinskii and Katav-Ivanovskii municipal raions, and for the rural settlement of Novyi Kremenkul in Sosnovskii municipal raion, this list has been shortened by transferring to the level of raions the following issues:

- 1) the approval of the budgets of settlement and the control over their execution;
- 2) the establishment, changes to and abolition of the local taxes and levies in settlements;
- 3) the ownership, use and disposal of municipal property owned by settlement.

The activity of the bodies of local self-government in the settlements of Kartalinskii and Katav-Ivanovskii municipal raions, as well as that of the rural settlement Novyi Kremenkul in Sosnovskii municipal raion, is financed by estimates of expenditures and revenues. As for the newly created settlements in the oblast's other raions, local budgets are formed wherever the revenue sources are represented by the land tax and the personal property tax, non-tax revenues and financial aid.

As can be seen from this brief description of legislation, the regions in the third group are characterized by the ability to finance their newly created settlements by estimate. The division of issues of local importance between the two levels of municipal authority in most instances depends on the raion on whose territory a given settlement is located. In this connection, it can be assumed that the decision as to the delegation of powers to the settlement level was influenced not only by objective factors, such as the tax base of manpower potential of a settlement, but to a high degree also by the standpoint of the authorities of a municipal raion.

The fourth group of regions, which includes those regions where all the issues of local importance in settlements have been delegated to the level of municipal raions, is the smallest. In this group there are only three regions – Magadan Oblast, Sakhalin Oblast and Yaroslavl Oblast.

The Law of Sakhalin Oblast regulating the procedure for decision-making concerning the issues of local importance in newly created settlements³⁹, will be in operation only until the end of the year 2006. By this Law, all issues of local importance are to be delegated to the raion bodies of local self-government. The bodies of local self-government of settlements throughout 2006 have only the right to adopt the charters of settlements and to establish official symbols.

In Yaroslavl Oblast the process of complete transfer of powers in respect to issues of local importance by municipal raions should also cover the period of only one year – 2006. During this year, it is planned to transfer the powers to the settlement level gradually, so that all the newly created settlements will begin to execute their powers in full from the year 2007 onward. The powers should be transferred depending on the readiness of the bodies of local self-government. The decisions as to the transfer of powers are to be made by the Administration of Yaroslavl Oblast on the basis of resolutions of the Commission for reform of local self-government under the Administration of Yaroslavl Oblast.

It should be noted that at the present moment the provisions of the Law “On the procedure for settling the issues of local importance in the newly created settlements in Yaroslavl Oblast during the transition period” are being revised. In particular, on 29 August 2006 the Oblast Commission for reform of local self-government made the decision concerning the treasury execution of the budgets of settlements in Yaroslavl Oblast in 2007 by the administrations of municipal raions. In September 2006, the corresponding amendments are to be discussed by the Oblast State Duma⁴⁰.

In contrast to the previously discussed regions in this group, in Murmansk Oblast the Law regulating the procedure for decision-making in respect to the issues of local importance in newly created settlements during the transition period⁴¹ is to be in operation for three years. For the first two years of the transition period (2006–2007), all the powers relat-

³⁹ Law of Sakhalin Oblast of 14 December 2005, No. 89-ZO, “On settling the issues of local importance in newly created settlements”.

⁴⁰ www.regnum.ru/news/696242.html

ing to the issues of local importance of settlements are to be delegated to municipal raions. The bodies of local self-government of settlements will have the right to deal with the full range of issues of local importance, as established in Article 14 Federal Law “On general principles of the organization of local self-government in the Russian Federation”, from 1 January 2008.

3.3. Conclusions

In the majority of the RF regions, on whose territories there exist newly created settlements, the laws regulating the procedure for the bodies of local self-government of these settlements to deal with issues of local importance during the transition period have indeed been adopted, as it has been envisaged in Federal Law No. 129-FZ.

As seen in our analysis of legislation establishing the specific features of the implementation of municipal reform during the transition period, the laws enacted at the regional level do, to a varying degree, regulate the division of powers between the settlement and the raion levels of authority, the method for financing the activity of bodies of local self-government, and the issues of property division.

The analysis of regional legislation in 61 regions has made it possible to distinguish four approaches to the procedures of dealing with the issues of local importance on the territories of newly created settlements, which are being practiced by regional authorities when elaborating their policies in this sphere.

In accordance with the first approach, the power to make all the decisions concerning the issues of local importance in settlements is to be delegated in full to the newly created settlements from the year 2006 year onward. The associated activity is to be financed from local budgets, which are to be formed in accordance with federal legislation. This system of local self-government organization during the transition period has been introduced on their territories by 34 of the 61 regions under study.

In this connection, the analysis of the currently applied regional laws has demonstrated that, in the majority of regions within this groups, the practice of making agreements between settlements and municipal raions, in accordance with which a considerable part of the settlements’ powers

is to be delegated to the raion level, has become very widespread. It should be noted that in the majority of instances the initiators of such agreements are not the settlement, but the authorities of raions, or even regional authorities. Under these agreements not only certain powers but the issues of local importance as a whole are being transferred. As a result, the bodies of local self-government of settlements are left even without the powers to control the execution of the delegated powers by the raion bodies of authority. Consequently, despite the legislatively consolidated considerable range of powers granted to settlements, their independence in dealing with their issues of local importance in many cases has been significantly limited.

The second approach consists in dividing the issues of local importance between the settlement and raion levels. This group consists of the 26 regions in the analyzed sample that have chosen this approach. These 26 regions differ significantly in the actual volume of powers delegated to newly created settlements: from 3 issues of local importance in Nizhnii-Novgorod Oblast to 24 in Krasnodar Krai. The basic characteristics of the regions comprising this groups are as follows:

- In the majority of regions the activity of the bodies of local self-government of newly created settlements is financed by an estimate of revenues and expenditures, prepared by a municipal raion.
- In those regions where the existence of the budgets of settlements is envisaged, to these budgets mostly non-tax revenues and financial aid are transferred. The exceptions are represented by the Republic of Adygeya, Tumen Oblast and Orenburg Oblast, where settlements can receive also tax revenues.
- In a considerable number of regions the issues of property division between settlements and raions during the transition period are not regulated by legislation.
- Despite the legislative division of issues of local importance between settlements and municipal raions, in this group of regions there are also some cases of agreements being made concerning the delegation to raions of additional powers for dealing with the settlements' issues of local importance. For lack of information, it was not possible to es-

estimate the scope of the practice of transferring the powers of settlements to the raion level by agreements.

The third approach to the implementation of municipal reform during the transition period differs from the second one in that it involves the possibility of establishing different lists of powers for different settlements or groups of settlements. This approach has been applied in 9 regions of our sample. As for the list of issues of local importance to be delegated to settlements, in the majority of cases it varies between raions. Most of the settlements are financed by estimate.

And, finally, the fourth group of regions consists of those three regions where during the first years of reform (in Yaroslavl Oblast and Sakhalin Oblast – in 2006, in Magadan Oblast – in 2006–2007) the bodies of local self-government of the newly created settlements were completely deprived of all the powers to make decisions in respect to issues of local importance.

Annex 3.1. Period of Operation of the Laws of RF Subjects Establishing the Specific Features of Implementing Federal Law No. 131-FZ on their Respective Territories during the Period of Transition

Periods of Operation	Number of Regions	Regions
3 year	15	Republic of Komi, Republic of Sakha (Yakutia), Republic of Tatarstan, Republic of Udmurtia, Primorskii Krai, Vologda Oblast, Kaluga Oblast, Kemerovo Oblast, Leningrad Oblast, Moscow Oblast, Pskov Oblast, Tula Oblast, Ulianovsk Oblast, Koriak AO, Khanty-Mansi AO
2 year	2	Belgorod Oblast, Novgorod Oblast
1 year	24	Republic of Adygeya, Republic of Bashkortostan, Republic of Karelia, Republic of Khakassia, Perm Krai, Astrakhan Oblast, Volgograd Oblast, Irkutsk Oblast, Kaliningrad Oblast, Kamchatka Oblast, Kostroma Oblast, Nizhnii-Novgorod Oblast, Omsk Oblast, Orenburg Oblast, Riazan Oblast, Samara Oblast, Saratov Oblast, Sakhalin Oblast, Sverdlovsk Oblast, Tver Oblast, Tomsk Oblast, Cheliabinsk Oblast, Evrejskaja AO, Yamal-Nenets AO
Not determined	14	Republic of Altay, Republic of Buryatia, Republic of Mordovia, Republic of Mariy El, Republic of Tyva, Republic of Chuvashia, Altay Krai, Voronezh Oblast, Kirov Oblast, Smolensk Oblast, Tumen Oblast, Chita Oblast, Yaroslavl Oblast, Murmansk Oblast
Schedule for step-by-step transition for period of three years	5	Krasnodar Krai, Archangelsk Oblast, Vladimir Oblast, Ivanovo Oblast, Magadan Oblast

Source: Laws of RF subjects establishing the specific features of the implementation of Federal Law No. 131-FZ in their territories during the transition period.

Annex 3.2. The list of those Issues of Local Importance which, in 2006, after the Relating Powers had been Divided between Newly Formed Settlements and Municipal Raions within RF Subjects of the Second Group, were Left at the Settlement Level

Issues of Local Importance of Settlements (Art. 14 of FZ-131)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
Krasnodar Krai	+																										
Orenburg Oblast		+																									
Republic of Khakassia			+																								
Primorskiï Krai																											
Belgorod Oblast																											
Samara Oblast																											
Republic of Karelia																											
T Republic of Komi																											
T Republic of Udmurtia																											
Kemerovo Oblast																											
Tver Oblast																											
Koriak Autonomous Okrug																											
Republic of Bashkortostan**																											
Moscow Oblast																											
Ivanovo Oblast																											
Sverdlovsk Oblast																											
Erejskaja AO																											
Republic of Adygeya																											
Riazan Oblast																											
Murmansk Oblast																											
Tumen Oblast																											
Pskov Oblast																											
Saratov Oblast																											
Khanty-Mansi AO																											
Republic of Tatarstan																											
Nizhniï-Novgorod Oblast																											
TOTAL																											

1) formation, approval and execution of budget of a settlement, and control over execution of that budget;

2) establishment, changes to and abolition of local taxes and levies in settlements;

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	
29) calculation of housing and utilities subsidies and organization of provision of these subsidies to citizens who have right to such subsidies in accordance with housing legislation (199-FZ); 30) organization and implementation of measures aimed at children's and youth activities in a settlement (199-FZ).																												
TOTAL NUM- BER of issues of local importance delegated to newly created settlements during transition period		24	21	20	20	20	16	16	16	16	16	16	16	15	15	15	14	13	12	11	11	11	10	10	10	5	3	

*+ followed by "p" means that in this RF subject to the newly created settlements only a part of a given issues of local importance is consolidated.

** The number of issues of local importance in the settlements in the Republic of Bashkortostan shown here is based on our assumptions, because the law contains only a list of raion powers, with no mention of "the principle of residuality" being applied in the division of powers for settlements.

Annex 3.3. An analysis of Legislations of RF Subjects Regulating the Procedure for Decision-making Concerning the Issues of Local Importance in Newly Formed Settlements during the Transition Period of Municipal Reform

This Annex contains a detailed analysis of the legislations existing in 53 RF subjects in respect to the issues of implementing municipal reform during the transition period of 2006–2008. The choice of regions to be analyzed was based on the availability of legislative acts in publicly accessible legal databases. All the regions discussed here are subdivided into four groups, depending on their approach to endowing the bodies of local self-government of newly created settlements with appropriate powers to make decisions concerning their issues of local importance during the transition period.

The first group of regions: the newly created settlements there have been granted full rights to deal with issues of local importance

The regions in this group have established in their legislations for the newly created newly created settlements the right to make independent decisions concerning all the issues of local importance listed in Article 14 of Federal Law No. 131. In other words, the first group of regions consists of those subjects of the Russian Federation which have declared their intention to entirely switch over to the new system of local self-government from 1 January 2006.

The choice by a region, for the transition period, of variant 1 in its “pure form” requires that the regional lawmakers determine the specific features for the division of objects of municipal property between raions and settlements, including the following ones:

- the moment when the property rights of newly created municipalities should arise;
- the patterns for coordination procedures required for the approval of the list of property objects;
- the procedure for regulating potential disputes and disagreements.

At the same time, this “pure” variant of transition to the system of local self-government in a given region does not require that a regional law should establish:

- the specific features for the formation of local budgets or budgeting process, because the newly created settlements in their decision-making concerning the issues of local importance at the settlement levels should be fully guided by the already existing provisions of tax and budget legislation;
- the redistribution of issues of local importance between settlements and raions, or the redistribution of powers relating to decision-making in respect to these issues;
- the right to use municipal property without compensation for purposes of resolving issues of local importance during the transition period, until the moment of registration of ownership rights in respect to that property⁴².

Besides, the period of operation for the regional law applied in variant 1 may either not be specified in principle (and that period would then be the same as the transition period specified in FZ No.131), or be established for the same period of 3 years.

The first group consists of the following regions:

1. The Republic of Altay.
2. The Republic of Buryatia.
3. The Republic of Mordovia.
4. The Republic of Sakha (Yakutia).
5. The Republic of Tyva.
6. The Republic of Chuvashia.
7. Altay Krai.
8. Stavropol Krai.
9. Vologda Oblast.
10. Voronezh Oblast.
11. Irkutsk Oblast.
12. Kaluga Oblast.
13. Kirov Oblast.

⁴² This right is established in Item 3 of Part 1 of Article 85 of Federal Law No. 131-FZ (as worded in Law No. 129-FZ).

14. Kostroma Oblast.
15. Omsk Oblast.
16. Ulianovsk Oblast.
17. Chita Oblast.

Within the first group of regions, also the regions belonging to another of two separate subgroups can be placed. In particular, one such subgroup consists of the four region that comply with the special conditions which enable settlements to make decisions concerning all the issues of local importance consolidated to them by federal legislation from the year 2006 onward:

18. Astrakhan Oblast.
19. Leningrad Oblast.
20. Perm Krai.
21. Smolensk Oblast.

The other subgroup within the first group is represented by those two regions where some budgeting powers have been delegated to the raion level, at least for the period of one year during the transition period:

22. The Republic of Mariy El.
23. Volgograd Oblast.

Besides, to the first group can also be added those regions where no newly created settlements have appeared and where, consequently, the bodies of local self-government of settlements are fully executing all the powers for dealing with issues of local importance consolidated to them by federal legislation. These regions are:

1. The Republic of Kalmykia.
2. The Republic of North Osetia-Alania.
3. The Republic of Kabardino-Balkaria.
4. Karachaevo-Cherkessian Republic.
5. Kursk Oblast.
6. Novosibirsk Oblast.
7. Penza Oblast.
8. Tambov Oblast.
9. Agin-Buriat Autonomous Okrug.
10. Nenets Autonomous Okrug.
11. Evenk Autonomous Okrug.

Stavropol Krai and **Novosibirsk Oblast** stand apart from the other regions in this group, as far as the timelines for and the specific features of the transition period are concerned. Municipal reform, by way of experiment, began there on 1 January 2005. It is believed that from that moment onward Federal Law No. 131-FZ in those regions has been implemented in full. For detailed descriptions of these regions' experiences in implementing municipal reform, see Chapter 4.

The Republic of Altay.

The period of operation of Law of the Republic of Altay of 13 December 2005, No. 97-RZ, "On execution of powers by newly created municipal formations in the Republic of Altay" has not been specified. The Law reulates the issues of competence and property relations.

By this Law, the newly created municipal formations have been granted full rights to make decisions concerning all issues of local importance, as well as to provide solutions to other issues at the expense of their own material and financial resources. The principles and procedure for dividing the objects of property between municipal formations as stipulated in the Republican Law, have no specificity of their own, because they replicate the norms stipulated in the model law issued by the RF Ministry for Regional Development, with all their drawbacks.

The Republic of Buryatia

According to official information made available by the bodies of state authority of the Republic of Buryatia, municipal reform is being implemented in Buryatia in its full version.⁴³ No separate law on the procedure for dealing with issues of local importance has been adopted in the Republic. Instead, some amendments have been made to Chapter 7 of the Law "On the organization of local self-government in the Republic of Buryatia", which regulates the transitory provisions. At the same time, there exist some contradictions in Article 39 of that Law in the wording as of 23 November 2005, thus making it impossible to draw any definite conclusions as to when exactly reforming is to begin: in 2006 or in 2009. According to the information published in the Republic, some issues of local importance are to be delegated by the newly created settlements, by

⁴³ <http://www.buryatia.ru/buryatia/gov/>.

agreements, to municipal raions. This is to be done on an individual basis. There exist some settlements where such powers are not to be delegated. A complicated process of property redistribution is going on there. At the Republic's level, a draft law concerning the preservation of the status of libraries at the raion level has been prepared. The local budgets for the year 2006 for all rural settlements were developed by the Ministry of Finance of the Republic of Buryatia.

The Republic of Mordovia

In the Republic of Mordovia, only two new settlements were created – the towns of Kovytkino and Ruzaevka, and so the Law of the Republic of Mordovia of 28 November 2005, No. 81-Z, “On the procedure for settling the issues of local importance in newly created municipal formations” is applied only to these two settlements. By this Law it has been established that the issues of local importance there are to be dealt with in accordance with Article 14 of Federal Law No. 131-FZ. No other issues are regulated by this Law.

The Republic of Sakha (Yakutia)

Law of the Republic of Sakha (Yakutia) of 8 December 2005, 298-Z No. 603-III, “On the specific features of implementing the Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation” in the Republic of Sakha (Yakutia) during the transition period”, has been adopted for the period of three years. By this Law, to newly created settlements the full range of powers established by federal legislation has been consolidated. In this connection, the Law envisages “mutual delegation of some subjects of jurisdiction and the powers in respect to issues of local importance between the bodies of local self-government of municipal raions and the bodies of local self-government of settlements” on the basis of agreements concluded in accordance with Part 4 of Article 15 of Law No. FZ-131.

To the budgets of newly created settlements, from 1 January 2006 and in accordance with the Republic's Law, the tax revenues generated by local taxes are to be transferred, which are to be determined by the representative bodies of settlements, as envisaged by Article 61 of the Budget Code of the Russian Federation. The division of the objects of municipal

property between municipal raions and newly created settlements is to be done in the procedure established by Law of the Republic of Sakha (Yakutia) of 25 April 2003, 18-Z No. 37-III, *“On the division of subjects of jurisdiction and powers, and objects of municipal property, between municipal formations in the Republic of Sakha (Yakutia)”*.

The Republic of Tyva

In Law of the Republic of Tyva of 28 December 2005, No. 1558 VKh-1, *“On resolving the issues of local importance in newly created settlements in the territory of the Republic of Tyva during the transition period of implementing the Federal Law “On general principles of the organization of local self-government in the Russian Federation”*, the period of its being in operation is not specified. The Law’s wording is brief, it simply consolidates the full range of issues of local importance for the newly created settlements in the Republic.

The Republic of Chuvashia

In the Republic of Chuvashia, just as in the Republic of Buryatia, no separate law on the procedure for dealing with the issues of local importance in newly created settlements was adopted; instead, on 29 December 2005, Article 67 was added to Law of the Republic of Chuvashia of 18 October 2004, No. 19, *“On the organization of local self-government in the Republic of Chuvashia”*. In accordance with this amendment, the urban and rural settlements that have been newly created in the Republic are to begin the execution of the full range of their powers specified in Article 14 of Federal Law No. 131-FZ from 1 January 2006, with the exception of cases envisaged in current legislation, on the basis of agreements between municipal formations. There is no regulations as to the financial issues involved in the implementation of municipal reform at the regional level. It is planned to adopt a separate law concerning the division of municipal property between settlements and municipal raions.

The practice of making agreements and thereby transferring some of the existing powers between the administrations of municipal raions and settlements has become rather widespread. The positive aspect of these agreements is that they envisage not a transfer of certain issues of local importance as a whole, but some specific powers for their execution. The period of effect for such agreements is one calendar year, while their sub-

ject is the transfer of a considerable part of the settlements' powers to raion administrations. The actual agreements signed by heads of settlements and raions are based on the text of the model agreement developed in the Republic. According to the available information, the form of the agreements between each of the raions in the Republic of Chuvashia and the newly created settlements located on the territories of municipal raions is the same as that of the model agreement. In particular, the agreement specifies the following powers:

- the preparation of draft normative-legal acts of settlements for the regulation of the formation, approval, execution, and the recording of the execution of the budget of a settlement, and the preparation of reports concerning that budget's execution;
- the preparation of draft normative-legal acts of settlements concerning the establishment of the tariffs on services provided by municipal enterprises and institutions, the regulation of the tariffs on goods and services provided by the organizations belonging to the utilities complex (with the exception of electric power and supply and heating), the tariffs on the inclusion into the utilities infrastructure systems, the surcharges on the tariffs on goods and services provided by the organizations belonging to the utilities complex, and the surcharges on the prices (or tariffs) established for consumers on the territories of settlements;
- the preparation of draft normative-legal acts of settlements on the administration and disposal of municipal property, including plots of land on the territories of settlements, prior to the division of state land property;
- the preparation of the draft normative-legal acts of settlements in the spheres of management of public motor roads, housing construction and HUS on the territories of settlements;
- the preparation of draft general plans for the development of a settlement, the rules for the use of land and the construction thereon, the documentation for the planning of territories and the issuing of permits for construction and permits for certain objects to be put in operation, the urban construction normatives for the planning of settlements, for the reservation and withdrawal, including by buying-out,

of plots of land within the borders of settlements needed for municipal use;

- the introduction of a register of municipal property, the preparation of lease agreements and contracts of purchase and sale in respect to municipal property, the control of safety and targeted use of municipal property and plots of land, the keeping of records of transfers of rent for the lease of municipal property and plots of land on the territories of settlements;
- the representation of the interests of the bodies of local self-government of settlements to the judicial bodies in respect to issues of the administration and disposal of property and land resources, and the introduction of measures aimed at eliminating the violations of existing legislation;
- the organization of interaction between the cultural institutions of settlements on the territories of raions, and the participation of settlements in a raion's cultural events;
- the coordination of the activities of the bodies of local self-government of settlements in the spheres of mass-scale physical culture and sports being developed on the territories of raions.

As can be seen, the majority of powers being delegated to the raion level relate to the establishment of "the rules of game", to be applied in the administration of financial and material resources in urban and rural settlements. The financial backing for these powers is to be provided by the allocations in the raion budgets to the upkeep of the raion bodies of local self-government. This is contrary to federal legislation, where it is stated that powers may be transferred only together with the transfer, to the recipient of such powers, of appropriate financial funds in the form of subventions from the corresponding budget.

According to the information provided by the Administration of the President of the Republic of Chuvashia, the comprehensive implementation of municipal reform will entail the allocation of adequate financial resources from the Republic's budget for the training of the additional municipal staff needed by the local administrations of settlements. These measures are envisaged in the plan developed for the year 2007. At the moment, the executive authority in each of the settlements is represented

by 3 or 4 officials, which is clearly insufficient for the execution of all the powers assigned to that level of municipal authority.

Altay Krai

The text of Law of Altay Krai of 29 December 2005, No. 135-ZS, *“On the procedure for settling, during the transition period, the issues of local importance in newly created settlements”* contains no stipulations as to its period of operation. The Law, however, does contain the list of Krai’s newly created settlements (their total number is 36) and envisages that they are to be granted full powers.

Vologda Oblast

In accordance with Law of Vologda Oblast of 28 November 2005, No. 1359-OZ, *“On the specific features of executing local self-government in Vologda Oblast during the transition period”* (worded as *Laws of Vologda Oblast of 26.02.2006, No. 1413-OZ, and of 30.03.06, No. 1420-OZ*), the newly created municipal formations (urban and rural settlements) are to make decisions in respect to all the issues of local importance listed in Article 14 of Federal Law No. 131-FZ.

The period of operation of this Law is 3 years. It does not regulate the financial issues of interbudgetary relations, but does contain provisions as to the division of municipal property. These provisions, by the Oblast Law adopted as of 26 February 2006, have been brought in conformity with federal legislation. While in accordance with the Law’s previous version municipal raions and settlements had enjoyed the right to make decisions in respect to the division of municipal property, now any division of municipal property between newly created urban and rural settlements and the municipal raions within whose borders they are located is to be established by oblast laws in accordance with the norms stipulated in federal legislation. The oblast laws must contain lists of the objects of municipal property being transferred to settlements, including municipal unitary enterprises, municipal institutions, and other property objects. The procedure for preparing draft laws and the requirements as to the content of the documents to be submitted to the Oblast’s bodies of local self-government are to be determined by the Oblast Government.

Voronezh Oblast

In Law of 22 December 2005, No. 87-OZ, “*On the procedure for settling the issues of local importance in the newly created settlements in Voronezh Oblast*”, its period of operation has not been specified. The Law contains a list of newly created settlements Oblast (a total of 20) and establishes for them the full range of competence.

Irkutsk Oblast

Law of Irkutsk Oblast of 12 December 2005, No. 104-OZ, ‘On the procedure for settling the issues of local importance in the settlements newly created in Irkutsk Oblast in the year 2006 in accordance with the Federal Law “On general principles of the organization of local self-government in the Russian Federation”’, is quite brief and contains only the stipulation concerning the full-scale implementation of local self-government reform. It does not regulate the issues of financial backing for the powers of settlements, or of property and interbudgetary relations, and does not mention the possibility or the rights to make any agreements thereof.

The period of operation of this Law is only 1 year, in which Irkutsk Oblast differs from most of the regions where variant 1 has also been chosen, which entails full-scale execution of the powers of settlements. The practice of making agreements, under which the bodies of local self-government settlements are to transfer some of their powers to the raion authority, has become rather widespread.

Kaluga Oblast

Law of Kaluga Oblast of 19 December 2005, No. 152-OZ, “On the procedure for settling, during the transition period, the issues of local importance in the newly created settlements in the territory of Kaluga Oblast” is similar, in its brevity, to the law adopted in Irkutsk Oblast: it contains only declarations as to providing solutions to all the problems faced by newly created settlements, without regulating the issues of financial backing for the powers of settlements, or property and interbudgetary relations. Neither does it contain any mention of the possibility of agreements to be made between the bodies of local self-government of raions and settlements. The Law is to be in operation during the 3 years of reform.

Despite the provisions in the Law concerning the independence of bodies of local self-government of newly created settlements in their dealing with all the issues of local importance, in Kaluga Oblast the agreements between raions and newly created settlements have become very widespread, and as a result nearly all the powers of settlements have been delegated to municipal raions. As for financial issues, these agreements have failed to regulate them adequately.

In this situation, it seems preposterous to speak of the full-scale implementation of Law No. 131-FZ in Kaluga Oblast, though at the federal level Kaluga Oblast is regarded as the leader in implementing municipal reform⁴⁴.

Kirov Oblast

Law of 29 December 2004, No. 292-ZO, “*On local self-government in Kirov Oblast*”, has been augmented by a paragraph⁴⁵ which is similar in both its content and brevity to the Laws of Irkutsk Oblast and Kaluga Oblast discussed above. Thereby the full-scale implementation of local self-government reform in Kirov Oblast was declared. The Law’s period of operation has not been specified.

Kostroma Oblast

Law of Kostroma Oblast of 22 November 2005, No. 332-ZKO, “*On the procedure for settling the issues of local importance by newly created municipal formations with the status of “urban settlement” or “rural settlement” in Kostroma Oblast*” has the period of operation of 1 year. Similarly to the Laws of Kaluga Oblast and Kirov Oblast, it establishes full range of powers for newly created settlements.

In contrast to many other regional laws, this Law has been augmented by provisions concerning the right of the bodies of local self-government of newly created settlements to make agreements with the bodies of local self-government of municipal raions as to the transfer to the latter of some of their powers at the expense of subventions allocated from the

⁴⁴ Speech by V. S. Mokryi at the on-site session of the State Duma’s Committee for issues of local self-government in Kaluga on 9 June 2006.

⁴⁵ The amendment was introduced by Law of Kirov Oblast of 3 December 2005, No. 393-ZO, “On making amendments to the laws of Kirov Oblast and recognizing as null and void certain laws of Kirov Oblast in the sphere of local self-government and municipal service”.

budgets of these settlements to the budgets of municipal raions in accordance with the requirements stipulated in Part 4 of Article 15 of the Federal Law. However, regional legislation does not duplicate the similar norms existing in Federal Law No. 131-FZ, which grant the opportunity of making agreements concerning the transfer of some of the established powers from the bodies of local self-government of a municipal raion to settlements.

Omsk Oblast

Law of Omsk Oblast of 28 November 2005, No. 695-OZ, “*On the procedure for settling the issues of local importance in newly created municipal formations in Omsk Oblast in the year 2006*”, just as the Law of Irkutsk Oblast, has the period of operation of 1 year. It deals only with competence issues and establishes full range of powers for newly created settlements.

Ulianovsk Oblast

Law of Ulianovsk Oblast of 29 November 2005, No. 128-ZO, “*On the procedure for settling the issues of local importance in the newly created urban and rural settlements of Ulianovsk Oblast*” has the period of operation of 3 years. The Law is brief and regulates only competence issues, establishing full range of powers for newly created settlements. According to the information from Ulianovsk Oblast, the settlements are to transfer to municipal raions, by agreements, the following powers, which essentially represent issues of local importance:

- supply of fuel to the population;
- library services;
- promotion of trusteeship and guardianship;
- formation of a settlement’s archival funds;
- creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services;
- development and approval of the general plans of settlements;
- organization of the operation of salvage and rescue services;
- protection of spa and health resort areas;
- provision of water safety.

Chita Oblast

In Law of 14 December 2005, No. 748-ZChO, “*On the procedure for settling the issues of local importance in the newly created municipal formations in Chita Oblast during the transition period*”, the period of its being in operation is not specified. The Law establishes only a complete list of issues of local importance for newly created municipal formations – the urban and rural settlements in the Oblast.

The separate (first) subgroup within the first group consists of those RF subjects which have established, by their laws, special conditions, on the basis of which settlements can be endowed with the full range of their powers specified in federal legislation for the transition period.

Astrakhan Oblast

The specific feature of Astrakhan Oblast is that, prior to reform of local self-government, in the majority of its raions there existed a two-tier system of local self-government. As a result, within the framework of current municipal reform, only 23 new municipal formations have emerged in three raions of that oblast:

- Akhtubinsk raion (city of Akhtubinsk);
- Privolzhskii raion (12 rural settlements);
- Chernoyarsk raion (10 rural settlements).

Law of Astrakhan Oblast of 26 December 2005, No. 77/2005-OZ, “*On the procedure for settling the issues of local importance in the newly created settlements in Astrakhan Oblast*” has been adopted for the period of one year. The Law regulates competence issues, the procedure for financial backing for powers and the procedures for municipal property division.

The peculiarity of this law is that its action is extended only to those newly created municipal formations where before 1 January 2006 no local budgets were formed and approved. All the issues of local importance in such settlements are dealt with by the bodies of local self-government of municipal raions, while the financing for the activity of the bodies of local self-government of settlements is done by estimate. To all the other municipal formations, the powers of decision-making in respect to issues of local importance are to be transferred in full in 2006.

According to the information from Astrakhan Oblast, the majority of newly created settlements, or 17 out of 23, did approve their local budgets in due time, and therefore the norms stipulated in this law are not applicable to them, and they are going to execute the full range of powers assigned to the settlement level.

Leningrad Oblast

The procedure for dealing with the issues of local importance faced by newly created settlements is being regulated here by at least two oblast laws:

- Law of Leningrad Oblast of 12 December 2005, No. 115-OZ, “*On the procedure for settling the issues of local importance of settlements during the transition period*”, which can be regarded as a general law applicable to all the settlements within Oblast;
- Law of Leningrad Oblast of 26 December 2005, No. 120-OZzzzz, “*On the procedure for settling the issues of local importance in settlements by bodies of local self-government of certain municipal raions during the transition period*” is a special law, to be applied to four specific settlements.

The general Law has been adopted for the period of three years, the special one – for 1 year (until 2007). The general Law grants to settlements the right to execute the full range of powers assigned to the settlement level. Besides, settlements can also resolve other issues at the expense of their own material and financial resources.

The specific feature of the general Law is that it contains norms stipulating that, during the next three years, the Government of Leningrad Oblast will be able, by its own decrees, to approve methodological recommendations concerning the procedure of dealing with the issues of local importance in settlements. Municipal normative-legal acts are to be adopted (or issued) on the basis of the oblast methodological recommendations. Also, in accordance with the general Law it is possible, during the transition period, to issue special oblast laws in respect to individual urban and rural settlements (similar norms can be found in legislation of Moscow Oblast).

One of such special laws has already been adopted. In accordance with its norms, in two rural and two urban settlements located on the ter-

ritories of three raions (Vsevolzhskii, Lomonovskii and Boksitogorsk) all issues of local importance at the level of settlements are to be dealt with by the bodies of local self-government of each municipal raion, respectively. All the revenues and expenditures of these settlements are part of the budgets of those municipal raions where these settlements are located, i. e., these settlements are, in fact, being financed by estimate, while their citizens and their elective bodies of municipal authority are deprived of any real rights of executing local self-government. Thus, the actual practice of implementing municipal reform in Leningrad Oblast makes it impossible to regard its implementation as full-scale.

The general Law does not touch upon financial issues, but contains many provisions concerning the division of objects of municipal property between municipal raions and settlements. These provisions are to be abolished in an event of a decree being issued by the Government of the Russian Federation concerning the procedure of municipal property division between municipal raions, settlements and city okrugs. Among the other specific features of Leningrad Oblast's legislation in the sphere of property relations, one may point out the norms concerning the necessity of the division of objects of municipal property to be approved by a separate oblast law, to be issued on the initiative of the representative body of local self-government of that municipal formation which receives the property in question. In an event of a dispute arising during the formation of the list of objects of municipal property, the Governor Leningrad Oblast has the right to create a conciliation commission with the participation of the representatives of related parties.

In contrast to many other RF subjects, in Leningrad Oblast the legislative regulation of issues of land relations is executed. In particular, in accordance with the oblast's general Law, prior to the division of state property and State registration of the rights to municipal ownership of land, the bodies of local self-government of settlements are to dispose of plots of land located within the borders of the population units of their respective municipal formations, in the procedure established by legislation of the Russian Federation on land and urban construction. The other plots of land within the oblast are to be disposed of by the bodies of local

self-government of a given municipal raion or city okrug, in accordance with federal legislation and oblast legislation.

According to the available information, in Leningrad Oblast the practice of making agreements concerning the transfer of powers by the bodies of local self-government of settlements to the bodies of local self-government of municipal raions has become widespread.

Perm Krai

Law of Perm Krai of 29 December 2005, No. 1-KZ, "*On the procedure for settling the issues of local importance in the newly created settlements in Perm Krai in the year 2006*" has been adopted for the period of one year. The Law regulated competence issues, by determining the procedure for the temporary execution, by the bodies of local self-government of municipal raions, of the powers granted to the bodies of local self-government of settlements, the issues of temporary use of property without compensation, and also envisages the participation of newly created settlements in the co-financing of the expenditures on capital construction of social infrastructure objects on the basis of agreements between the bodies of local self-government of municipal raions and the bodies of local self-government of newly created settlements.

Our analysis of this law makes it impossible to determine the chosen model of municipal reform, though the oblast authorities have declared that Law No. FZ-131 is being fully implemented from the year 2006 onward (variant 1). At the same time, in Article 1 of the Law it is established that, from 1 January 2006, the issues of local importance faced by settlements are to be dealt with by the bodies of local self-government of newly created settlements independently, in accordance with the requirements stipulated in the Federal Law, if not stipulated otherwise by this Law. The differences between federal legislation and the Krai Law have arisen as a result of the potential failure to create, by 1 January 2006, some of the required bodies of local self-government in the newly created settlements, or to provide the required staff. For example, if by that date the posts of the head of a settlement or the head of administration of a settlement are still vacant, their powers are to be executed by the appropriate bodies of local self-government of a municipal raion. Besides, for this particular situation, in the Law of Perm Krai the additional specific

powers for dealing with the issues of local importance of settlements being delegated to the raion level of authority are listed:

- the development and submission of a settlement's budget for the year 2006, to be considered by the settlement's representative body;
- the execution of the budget of a settlement for the year 2006 year until the bodies of local self-government of that settlement are formed;
- the formation of a settlement's property complex, and the administration and disposal thereof, without the right of alienating this property prior to the formation of the bodies of local self-government of that settlement;
- the creation of municipal institutions and enterprises for resolving the issues of local importance of a settlement, with the subsequent transfer of these organizations into the settlement's ownership;
- the execution of other powers granted to the administration of a settlement.

Within one month after the formation of the bodies of local self-government of a settlement, the raion authorities are obliged to send to the settlement the adopted municipal legal acts and other documentation pertaining to the issues of local importance assigned to that settlement, as well as municipal property needed to dealing with the settlement's issues of local importance. The procedure for the transfer of property is to be determined by an act issued by the Governor of Perm Krai⁴⁶.

For those settlements where the bodies of local self-government have been fully formed, the period has been established (until 1 July 2006) during which the raion bodies of local self-government are to transfer, for temporary use and without compensation, to the bodies of local self-government of newly created settlements the property specified in Part 2 of Article 50 of the Federal Law and assigned for dealing with the issues of local importance settlements. This transfer of property for temporary use is effectuated in accordance with the procedure established by an act issued by the Governor of Perm Krai.

⁴⁶ This norm is incompatible with Federal Law of 31 December 2005, No. 199-FZ, and needs to be adjusted accordingly.

According to one news agency⁴⁷, in Perm Krai the creation of municipal formations has been completed, and all the necessary normative acts have been adopted within the framework of local self-government reform. The specific features of implementing Law No. 131-FZ have been associated with the uniting of Perm Oblast and the Komi-Permiak AO. According to Alexey Kamenev, Deputy Governor of the Krai, by March 2006 the budgets of all new settlements, both urban and rural, had already been adopted. A task force was created under the Oblast administration, which was responsible for the consulting and recommendations concerning the training of the top officials of such settlements (a total of over 900 municipal staff have already been trained).

Smolensk Oblast

In Law of Smolensk Oblast of 16 December 2005, No. 133-Z, “*On the procedure for settling the issues of local importance in the newly created urban and rural settlements in Smolensk Oblast*” the period of its being in operation is not specified. The Law regulates only competence issues. In this connection, the full range of powers is established for newly created settlements.

The specific feature of this Law is that it contains the descriptions of those cases, in an event of which during the year 2006 all the issues of local importance in settlements are to be dealt with at the level of municipal raions. These cases represent situations when in newly created urban and rural settlements, in an event of the elections to representative bodies, or the elections of the heads of newly created urban and rural settlements being held, and prior to 1 January 2006, the following happens:

- the head of a newly created settlement has been elected, without the creation of a competent representative body of the newly created settlement;
- the competent representative body of a newly created settlement has been created without the head of the settlement having been elected;
- neither the head of a settlement, nor its competent representative body exist in the settlement.

⁴⁷ www.regnum.ru/news/607539.html.

In the other (second) separate subgroup within the first group, those RF subjects have been placed whose legislations have endowed settlements with the full range of powers, with the exception of some budgeting powers.

The Republic of Mariy El

The period of operation of Law of the Republic of Mariy El of 16 December 2005, No. 60-Z, “*On the specific features of settling the issues of local importance by bodies of local self-government of urban and rural settlements in the Republic of Mariy El in the year 2006*” has not been specified; it does, however, introduce restrictions on the powers delegated to the settlements’ bodies of local self-government for the year 2006, as well as certain specific features of the execution of these powers:

- The land tax and the personal property tax envisaged in federal legislation on taxes and levies, and payable on the territories of settlements, until the year 2007 are to be introduced, changed or abolished by legal acts adopted by the assembly of deputies of the municipal raion within whose borders a given settlement is located.
- The execution of a settlement’s budget is delegated, by the assembly of deputies of a municipal raion, to the body of local self-government competent in the sphere of finance.
- The transfer of property of municipal raions, which is assigned for dealing with the issues of local importance in urban and rural settlements, is effectuated in accordance with the division of powers between bodies of local self-government, as established from 1 January 2006 by the Federal Law “On general principles of the organization of local self-government in the Russian Federation”, by other federal laws, and by the present Law.
- The bodies of local self-government of the settlements located within the borders of a municipal raion have the right to make agreements with the bodies of local self-government of that municipal raion concerning the transfer to them of the right to execute some of their powers, to be backed by subventions allocated in the budgets of these settlements to the budget of the municipal raion.

Hence the conclusion is possible that, despite the existence of provisions in the Law concerning the transfer to the bodies of local self-

government of settlements of all the powers envisaged in federal and regional legislations, some of the tax and budgeting powers in the year 2006 are still consolidated to municipal raions.

Volgograd Oblast

In Volgograd Oblast, Law of 23 December 2005, No. 1157-OD, “*On the specific features of implementing, on the territory of Volgograd Oblast, of Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation” in the year 2006*” was adopted for the period of one year. By this Law it is envisaged that the bodies of local self-government of newly created settlements are to execute all the powers listed in Articles 14 and 17 of Federal Law No. 131-FZ, except some budgeting powers (the formation and execution of their budget).

The Volgograd Law contains no provisions regulating property relations, but it differs from the laws adopted in other regions by a detailed description of the budgeting process. The budgeting powers are distributed between the bodies of local self-government of a municipal raion and of all of its settlement in the following ways:

- The formation of the draft budget of a settlement for the year 2006 is to be done by the bodies of local self-government of the municipal raion which incorporates a given settlement.
- The consideration and approval of the draft budget of a settlement for the year 2006 is to be effectuated by the representative body of a settlement.
- The organization and execution of the budgets of settlements, as well as the management of the monies being kept on the single accounts of the budgets of settlements at the bodies of the Federal Treasury, is to be effectuated by the bodies of local self-government of a municipal raion in accordance with legislation of the Russian Federation, the normative-legal acts of Volgograd Oblast, and the legal acts issued by the bodies of local self-government of a municipal raion.
- In an event when the representative body of a settlement fails to approve the budget of a settlement before 29 December 2005, the financing is to be executed from the 2006 budget of a municipal raion

on the basis of the estimate of revenues and expenditures of that settlement for the first quarter of the year 2006.

- In an event when the representative body of a settlement fails to approve the budget of the settlement before 1 April 2006, the financing is to be executed from the 2006 budget of a municipal raion on the basis of an estimate of revenues and expenditures of that settlement for the period until the end of the year 2006.

The Volgograd Law also contains norms that establish the right of the bodies of local self-government of a settlement to make agreements with the raion bodies of authority concerning the transfer to them of some of its powers, to be backed by subventions from the settlement's budget.

The second group of regions: some of the issues of local importance there have been transferred from newly created settlements to municipal raions, by applying a uniform approach to the redistribution of powers across a RF subject

In this section we are going to discuss those subjects of the Russian Federation where, by their own laws, newly created settlements are endowed only with the right to deal with some of the issues of local importance listed in Articles 14 and 17 of Law No. FZ-131, while the other issues are delegated to the bodies of local self-government of those municipal raions on whose territories these settlements are located. In this connections, the regions have chosen a uniform approach to the division of the jurisdiction of settlements and municipal raions throughout the territory of a RF subject. For the sake of brevity, we are going to refer to the choice of this variant of local self-government reform during the transition period as variant 2.

Resulting from our analysis of the available texts of RF subjects' legislations, as well as other information, the following regions can be placed within this group, with a varying degree of arbitrariness:

1. The Republic of Adygeya.
2. The Republic of Bashkortostan.
3. The Republic of Karelia.
4. The Republic of Komi.
5. The Republic of Tatarstan.
6. The Republic of Udmurtia.

7. The Republic of Khakassia.
8. Belgorod Oblast.
9. Evrejskaja Autonomous Oblast.
10. Kemerovo Oblast.
11. Koriak Autonomous Okrug.
12. Moscow Oblast.
13. Murmansk Oblast.
14. Nizhnii-Novgorod Oblast.
15. Orenburg Oblast.
16. Primorskii Krai.
17. Pskov Oblast.
18. Riazan Oblast.
19. Samara Oblast.
20. Saratov Oblast.
21. Sverdlovsk Oblast.
22. Tver Oblast.
23. Khanty-Mansi Autonomous Okrug – Yugra.
24. Tumen Oblast.

To the same group of regions also belongs Tumen Oblast, although formally it can be categorized as belonging to the first group. This is associated with two circumstances. On the one hand, by the transitory provisions of the oblast law on local self-government, to the newly created settlements the whole range of powers and issues of local importance listed in Law No. FZ-131 have been consolidated. On the other, the aforesaid norms of federal legislation are no longer in force on the territory of Tumen Oblast, because local referendum have been held in the settlements, with the resulting decision that some of their issues of local importance are to be transferred to the raion level.

A special subgroup within the second group is represented by those RF subjects which have also chosen variant 2, but at the same time have additionally established in their laws the necessity of a step-by-step process during the three years of reform, when every year the jurisdiction of the new settlements is to be expanded, with the simultaneous reduction of the role being played by municipal raions in finding solutions to the prob-

lems existing at the settlement level. This subgroup consists of the following subjects of the Russian Federation:

25. Krasnodar Krai.

26. Ivanovo Oblast.

The Republic of Adygeya

Law of the Republic of Adygeya of 12 December 2005, No. 385, “*On the procedure for settling the issues of local importance in newly created settlements*” was adopted for the period of one year. The Law regulates competence issues, the use of state and municipal property, as well as the financing for newly created settlements.

The Law contains two lists of issues of local importance: one for settlements (13 issues), the other for municipal raions (15 issues). In this connection, to settlements all the budgeting powers are consolidated (the formation, approval, execution and control of their budgets), as well as the powers relating to taxes and property management. To raions, the powers relating to the provision of utilities and transportation services, library services, etc. are consolidated. The issues of local importance in the sphere of territorial planning are divided between settlements and raions:

- the functions of settlements: the issuing of construction permits, of permits for certain objects to be put in operation, the reservation and withdrawal, including by buying-out, of land plots within the borders of settlement for municipal needs, and the effectuation of land control over the use of lands in a settlement;
- the functions of raions: the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of documentation prepared on the basis of these general plans of a settlement for the planning of its territory, and the approval of local urban construction normatives for the planning of settlements.

It is remarkable that, when establishing the rights of the bodies of local self-government of both raions and newly created settlements to transfer between them some of their powers for dealing with the issues of local importance consolidated to them, the Law emphasized the importance of taking into account the financial and economic capacities of newly cre-

ated settlements. At the same time, the mechanisms for estimating these financial and economic capacities when making decisions concerning the possibility of an agreement concerning the transfer of powers are not determined. Besides, the Law contains the norm stipulating that the bodies of local self-government of newly created settlements should have the right to create executive and administrative bodies and to approve their personnel lists only within the limits of the funds allocated thereto in the budgets of settlements.

The Law envisaged the use of state or municipal property without compensation before the registration of the rights of ownership thereof. One of the specific features of the Law of Adygeya is the right granted to the bodies of local self-government of municipal raions to independently determine the procedure for the use of property owned by a raion.

The specific feature of the organization of the financial backing for newly created settlements is the granting to municipal raions the rights to adopt municipal legal acts for the next financial year, which should contain:

1) the list (or rates of normative deductions) of tax revenues established in Article 61 of the RF Budget Code, to be transferred to the budgets of aforesaid settlements;

2) the volume of dotations (or subventions) from the Republic's Fund for financial support to settlements, to be transferred to the budgets of aforesaid settlements;

3) the volume of dotations from a raion fund for the financial support to settlements, to be transferred to the budgets of aforesaid settlements.

In an event of disputes or disagreements arising while determining the list (or rates of normative deductions) of the tax revenues transferable to the budgets of newly created settlements, or the volume of dotations (or subventions) from the funds for the financial support to settlements transferable to the budgets of aforesaid settlements, or the list of property being divided and (or) consolidated by decision of the President of the Republic of Adygeya, a Conciliation Commission is to be created. The Conciliation Commission is to be chaired by a representative of the Cabinet of Ministers of the Republic of Adygeya. The decision of the Conciliation Commission is to be signed by all its members and sent to the representa-

tive body of a municipal raion or to the State Council (Khase) of the Republic of Adygeya for an appropriate decision to be made.

The Republic of Bashkortostan

Law of 28 December 2005, No. 266-Z, *“On the procedure for settling the issues of local importance in newly created settlements during the transition period”*, adopted in the Republic of Bashkortostan, despite its title, deals only with municipal raions, designating for them the range of issues of local importance and the procedure for their financing. The Law’s period of operation is 1 year. The Law is intrinsically controversial, which is due to the following circumstances:

- The first two issues of local importance faced by settlements, relating to budgeting and tax powers, are consolidated neither to settlements nor to raions. Thus, the most important powers to be executed by municipal authorities have become “suspended without support”, which in actual practice may result in undermining the financial and economic foundation of local self-government.
- There is no single definition of the whole activity of newly created settlements in the Law, because after the range of competence of municipal raions has been established, with 14 issues of local importance consolidated to them, there is no mention at all of newly created settlements. This approach is fraught with the danger of multiple interpretations. Thus, if one assumes that the Law in a hidden way introduces “the principle of residuality” for newly created settlements, this will mean the possibility to execute, at the settlement level, the remaining 16 issues of local importance, including all the budgeting and tax powers. At the same time, this interpretation contradicts the provision contained in the law on the methods for financing municipal raions: in accordance with the Law, they are to be financed within the limits of the monies being transferred to the budgets of municipal raions as a result of deductions from the tax revenues transferable to the budgets of newly created settlements, as established by the RF Budget Code, and subventions from the Compensation Fund of the Republic of Bashkortostan allocated to the budgets of municipal raions for the payment of dotations to the budgets of newly created settlements.

The Republic of Karelia

In Karelia, Law of 28 November 2005, No. 919-ZRK, '*On the procedure for settling the issues of local importance in urban and rural settlements of the Republic of Karelia in the year 2006, and on the suspension of some provisions of the Law of the Republic of Karelia "On the inter-budgetary relations in the Republic of Karelia"*' was adopted (in the wording approved as of 26 December 2005, No. 937-ZRK). The period of operation of this Law is 1 year. In the Law, competence issues, the procedure for the financial backing for the issues of local importance delegated to settlements, and property relations are regulated. There is no mention of the possibility of making agreements between the bodies of local self-government of settlements and municipal raions.

In Karelia, the uniform approach to the redistribution of powers has been chosen (variant 2), with the exception of those settlements where the heads have not been elected and (or) their representative bodies have not been formed. The decision-making concerning all issues of local importance faced by such settlements is the prerogative of the bodies of local self-government of municipal raions until the election of the heads of municipal formations and (or) the formation of the representative bodies of settlements.

The Law has the following specific features:

1. The Law contains the list of issues from Article 14, which are placed by the Law of the Republic within the category of issues of local importance of municipal raions. Among them, budgeting issues (the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget) and tax issues (the establishment, changes to and abolition of local taxes and levies in settlements) are specified. It is also noteworthy that the execution of powers relating to housing issues (Item 6 of Article 14) and to territorial planning (Item 20 of Article 14) should be coordinated with the representative body of a settlement.

2. The Law is structurally organized in such a way that the issues of local importance to be dealt with by settlements are determined on the basis of "the principle of residuality", thus enabling the newly created

settlements to place within their jurisdiction those issues of local importance that have, so far, been added to the list of settlement-level issues.

3. Until the division of property between municipal raions and settlements, and the registration of ownership rights, the bodies of local self-government of settlements may use property, without compensation, for the execution of their powers in respect to those issues of local importance that are not assigned by this Law to municipal raions. The list of property being transferred to the bodies of local self-government of settlements, to be used by them without compensation, is to be determined by the representative bodies of municipal raions in coordination with the bodies of local self-government of settlements.

4. Settlement are to be financed by estimate, but they do participate in the formation of the raion's budget in the procedure established by the Law for the interaction between the bodies of local self-government of settlements and raions. For example, the heads of municipal raions are responsible for informing the representative bodies of settlements concerning the indices entered in the draft budgets of municipal raions in respect to the expenditures allocated to each settlement. The representative bodies of settlements discuss these indices in the draft budgets and achieve one of the following decisions:

- to approve the indices set in the draft budgets;
- to submit proposals as to changing the indices set in the draft budgets.

In this connection, the representative bodies of settlements have the right to submit proposals that expenditures should be increased only when there exist available additional revenue sources for the budgets of municipal raions, and (or) when the expenditures of a given settlement have been cut within certain items of the municipal raion budget. The administrations of settlements have appropriate rights and bear responsibilities as the principal managers of the budget funds of municipal raions in the part of expenditures on the financial backing for the powers of the bodies of local self-government of settlements relating to their issues of local importance.

In Karelia the practice of agreements between the bodies of local self-government of settlements and municipal raions has become widespread.

The Republic of Komi

Law of the Republic of Komi of 26 December 2005, No. 144-RZ, *“On the specific features of implementing Federal Law of 6 October 2003, No 131-FZ, “On general principles of the organization of local self-government in the Russian Federation” during the transition period in the territory of the Republic of Komi”* was adopted for the period of three years of reform.

The Law regulates **competence issues** and property division, with no mention of the financial backing for the issues of local importance delegated to settlements. However, the fact that the issue pertaining to the formation and execution of budgets, and the control for the execution of budgets, has not been included in the list of issues of local importance assigned to settlement has led to the conclusion that the newly created settlements are financed by estimate.

The responsibilities are divided between newly created settlements and municipal raions without any specific features pertaining to the regions that have chosen variant 2: approximately 17 issues of local importance are consolidated to settlements, while all other issues are assigned to municipal raions. In the part determining the principles and the procedure for property division, the Law replicates the model law developed by the RF Ministry for Regional Development, with all its flaws.

This Law contains some small errors and indistinct definitions, which make its understanding less clear. For example, the following sentence: *“The property of newly created municipal formations of settlements, specified in Part 2 of Article 50 of Federal Law No. 131-FZ, may be transferred for the use, without compensation, by the municipal raions during the transition period, in accordance with the division of issues of local importance between the newly created municipal formations of settlements and the municipal raions that incorporate these settlements, established by Articles 1 and 3 of this Law”* can be interpreted in several ways when determining the specific objects of property being transferred to raions during the transition period. Besides, it is unclear how the property base of the newly created settlements had been formed by the beginning of the transition period, from which they could transfer certain objects to municipal raions.

The Republic of Tatarstan

In the Republic of Tatarstan, Law of 12 December 2005, No. 124-ZPT, “*On the procedure for settling the issues of local importance in newly created settlements in the Republic of Tatarstan*” was adopted. The Law’s period of operation is 3 years – until 1 January 2009. The Law regulates competence issues, introduces the principle of financing settlements by estimate, but does not determine the procedure for property division.

All the newly created settlements are listed in the annex to the Law. In Tatarstan, these are as follows: 11 big cities of oblast importance (oblast centers)⁴⁸, which have been granted the status of urban settlements, and one village⁴⁹, which has been granted the status of a rural settlement. The Law redistributes issues of local importance between these new settlements and those municipal raions on whose territories these cities and village are located. Considering the socio-economic potential of oblast centers, it should be admitted that, at least for the three-year period of reform, they are defeated in their rights, because for them a very limited range of jurisdiction has been established. In particular, they are allowed to make decisions concerning only five issues of local importance among those listed in Article 14 of Law No. FZ-131, and even these powers have been further limited:

- the provision of housing, in accordance with housing legislation, to citizens with low income, who reside in settlements and are in need of improving their housing conditions; the organization of construction and maintenance of municipal housing, and creation of appropriate conditions for housing construction, but only in the part relating to the keeping of records, in the established procedure, of citizens in need of housing;
- the creation of adequate public recreation conditions for the residents of a settlement, and the organization of adequate equipment of popular public recreation sites;

⁴⁸ The towns of Aznakaevo, Almetievsk, Bavly, Bugulma, Yelabuga, Zainsk, Zelenodolsk, Leninogorsk, Nizhnekamsk, Nurlat, Chistopol.

⁴⁹ Kruglopolskoe.

- the organization of collection and removal of domestic waste and litter;
- the organization of the provision of all amenities and the planting of urban greenery on the territories of settlements, adequate use and protection of urban forest areas located within the borders of the population units of a settlement;
- the organization of street lighting and setting-up of signs with names of streets and numbers of buildings, only in the part relating to the setting-up of signs with names of streets and numbers of buildings.

Also, they are allowed to execute some powers among those listed in Article 17 of Law No. FZ-131:

- the adoption of the charter of a municipal formation, and of changes and amendments thereof, and issue of municipal legal acts;
- the establishment of the official symbols of municipal formations;
- the organizational and material-technical provision for municipal elections, local referendum, the voting for recall of a deputy, or a member of an elective body of local self-government, or an elective official in the local self-government, or voting on issues relating to changes of the borders of municipal formations, or the transformation of municipal formations;
- the execution of international and foreign economic connections in accordance with federal laws.

As can be seen, this list does not contain the most important powers for the regulation of tariffs, the adoption of the programs of socio-economic development of settlements, the foundation of an organ of the press, etc.

The local budgets of these big urban settlements are not to be formed, while the financial obligations arising in respect to the five established issues of local importance are fulfilled by the settlements by the estimate of their revenues and expenditures approved by the representative body of a municipal raion.

Property division between settlements and those municipal raions on whose territories the newly created settlements are located is regulated by a separate law of the Republic of Tatarstan. Until 1 January 2009, these settlements will have the right to use property, without compensation and

without registration, for the execution of their powers in respect to issues of local importance.

Within the framework of municipal reform in the Republic of Tatarstan, the possibility of establishing a conciliation commission in an event of disputes and disagreements. This commission is created by decision of the President of the Republic of Tatarstan out of representatives of the bodies of local self-government of a municipal raion and the newly created settlements. The conciliation commission is chaired by a representative of the President of the Republic of Tatarstan. The decision of the conciliation commission is signed by all its members and sent to the representative body of a municipal raion or to the State Council of the Republic of Tatarstan.

The Republic of Udmurtia

Law of the Republic of Udmurtia of 20 December 2005, No. 68-RZ, *“On the procedure for settling the issues of local importance in newly created municipal formations in the Republic of Udmurtia”* (in the wording as of 10 March 2006, No. 2-RZ) has the period of operation of three years.

The Law regulates competence issues and the principles for financing the settlements, without any mention of the problems relating to municipal property division.

The range of competence for settlements is based on the principle of residuality, whereby newly created settlements may place within their jurisdiction those issues of local importance which by now have been added to the federal list of settlement-level issues. Besides, from the number of issues of local importance left to settlements, by a separate norm, the issue relating to the execution of budgeting powers has been excluded. To municipal raions, 11 issues of local importance have been transferred, among which all the most important “resource-generating” powers have been listed (the imposition of taxes, property ownership, territory planning), as well as some others. Also, by the amendment introduced on 10 March 2006, among the raion issues of local importance a new one has appeared – “the calculation of housing and utilities subsidies and the organization of the provision of these subsidies to citizens who have the right to such subsidies in accordance with housing legislation”.

In contrast to the Republic of Khakassia, in the Law of the Republic of Udmurtia the issue of the formation, approval and execution of the budget, and of the control over its execution has not been assigned to settlements. However, it has not been transferred to raions, either. At the same time, in the Law of the Republic of Udmurtia it is clearly stated that:

- The estimate of revenues and expenditures of a settlement is to be approved by the representative body of a municipal raion in the form of an annex to the resolution on the budget of a municipal raion for the next financial year.
- From 1 January 2006, no budgets of settlements are formed.
- From 1 January 2006, the tax and non-tax revenues established by Articles 61 and 62 of the RF Budget Code, transferable to the budgets of those settlements, are to be transferred to the budget of the municipal raion on whose territory those settlements are located.

Among the specific features of the law adopted in the Republic of Udmurtia, we can mention the norms (disputable from the point of view of the spirit and letter of current legislation), which establish from 1 January 2006 the possibility for the monies generated by the self-assessment taxation of citizens residing in a settlement (Article 56 of Law No. FZ-131) to be transferred to the budget of the municipal raion on whose territory that settlement is located. In this connection, it remains unclear at which level of administration – the raion or the settlement – the local referendum should be held, during which the citizens are to make the decision as to the introduction of self-assessment taxation.

The Republic of Khakassia

In the Republic of Khakassia, Law of of 29 November 2005, No. 74-ZPX, “*On the procedure for settling the issues of local importance in newly created municipal formations (rural and urban settlements) of the Republic of Khakassia*” was adopted. The period of operation of the Law is 1 year.

The Law regulates competence issues only, with no mention of financing powers, property division or agreements.

By the Law, a rather lengthy list, consisting of 20 issues of local importance, is established for new settlements, and a shorter list of 7 issues –

for municipal raions. In particular, during the first year of the transition period, the following issues of local importance in the settlements of the Republic of Khakassia have been delegated to municipal raions:

- the establishment, changes to and abolition of local taxes and levies in settlements;
- the organization, within the borders of a settlement, of electric power, gas and water supply, drainage, and supply of fuel to population;
- the provision for citizens with low income, who reside in a settlement and are in need of improving their housing conditions, with dwelling premises in accordance with housing legislation, the organization of construction and maintenance of municipal housing, and the creation of appropriate conditions for housing construction;
- the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of documentation prepared on the basis of these general plans of a settlement for the planning of its territory, the issuing of permits for construction and permits for certain objects to be put in operation, the approval of local urban construction norms for the planning of settlements, the reservation and withdrawal, including by buying-out, of plots of land within the borders of settlements needed for municipal use, and the execution of land control over the use of a settlement's lands;
- the organization and implementation of measures aimed at civil defense and the protection of population and territories of settlements from natural and man-made emergency situations;
- the creation, upkeep and organization of the operation of salvage and rescue services and (or) salvage and rescue units on the territories of settlements;
- the organization and execution of measures of mobilization readiness of municipal enterprises and institutions located on the territories of settlements.

The issues relating to the financing powers of the bodies of local self-government of settlements are not regulated by the Law. In accordance with the law on the Republic's budget, non-tax revenues are to be transferred to the budgets of settlements. This region differs from most other

regions in the second group by the existence of budgets at the settlement level. Another specific feature of this Republic is the division, between settlements and raions, of the budgeting and tax powers, that is, the budgeting powers (the formation, approval and execution of the budget of a settlement, and the control over execution of that budget) are delegated to settlements, while the tax powers (the establishment, changes to and abolition of local taxes and levies in settlements) – to raions. At the same time, the Law offers no clear explanations as to the budget of which level the tax and non-tax revenues, transferable to the budgets of settlements under the RF Budget Codes, are going to be actually transferred.

Belgorod Oblast

The period of operation of Law of Belgorod Oblast of 25 November 2005, No. 6, *‘On introducing changes into the Law Belgorod Oblast “On the specific features of the organization of local self-government in Belgorod Oblast”’* is two years.

By this Law, competence issues are regulated during the transition period, as well as the procedures for financial backing (which is to be allocated by estimate to the newly created settlements) and the provision of property needed for dealing with issues of local importance.

For the redistribution of issues of local importance, in respect to settlements, “the principle of residuality” has been chosen. In particular, the Law points out 10 issues of local importance among those listed in Article 14 of Law No. FZ-131 which are to be dealt with, during the transition period, by municipal raions, while the rest are left to settlements. In this connection, to raions the main “resource-generating” powers have been delegated – those relating to budgeting, taxation, the planning of territories, etc. The specific feature of the Law of Belgorod Oblast is that for the period of the coming year (2006) municipal raions have been allowed to expand the list of issues of local importance established for them by regional legislation. For this purpose, the raion councils of deputies must, before 1 January 2006, adopt all the necessary decisions.

The procedure for financial backing is as follows.

The revenues (including the tax revenues transferable in accordance with the RF Budget Code to the budgets of newly created settlements) and expenditures of newly created settlements are envisaged as the com-

ponent part of the budgets of a municipal raion for the years 2006 and 2007, separately for each newly created settlement.

The bodies of local self-government of municipal raions responsible for preparing the draft budgets of municipal raions, when developing the draft budgets of municipal raions for the years 2006 and 2007, must take into consideration the proposals made by the bodies of local self-government of newly created settlements concerning the volume and structure of the revenues and expenditures of those settlements.

The land tax and the personal property tax, due to be paid on the territories of newly created settlements in 2006 and 2007, are to be established, introduced into actual practice and abolished in accordance with the federal laws and the normative-legal acts issued by the councils of deputies of the municipal raion on whose territory those settlements are located.

Among the specific features of the Law of Belgorod Oblast, we can point out the provision concerning the creation of incentives for the bodies of local self-government of newly created settlements. For this end, the councils of deputies of municipal raions are recommended, when determining the procedure for disposing of the surplus revenues of settlements that have been received during the execution of the budgets of municipal raions in excess of the amounts approved therein for the years 2006 and 2007, by decisions of the councils of deputies of municipal raions, to allocate a part of such revenues to the resolving of the issues of local importance faced by the aforesaid settlements.

The Evrejskaja Autonomous Oblast

Law of the JAO of 2 November 2005, No. 564-OZ (in the wording as of 30.11.2005 No. 609-OZ and as of 25.01.2006 No. 641-OZ), “*On the procedure for settling the issues of local importance of urban or rural settlements on the territory of the Evrejskaja Autonomous Oblast in the year 2006*”, was adopted for the period of one year. By this Law, competence issues are regulated during the transition period, as well as those relating to the financial backing for the execution of powers by the bodies of local self-government of newly created settlements, without any mention of the procedure for municipal property division.

In the current wording of the Law (the latest amendments were introduced in January 2006), in respect to municipal raions, “the principle of residuality” has been chosen for determining the lists of issues of local importance. For newly created settlements, the Law establishes 14 issues, among which one is “resource-generating” – the ownership, use and disposal of municipal property owned by settlement. Thus, 15 of issues of local importance, including the powers for imposing taxes, the management of HUS and the planning of territories, were assigned to the raion level.

In the Law it is stated directly that the budgeting powers (the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget) in the year 2006 are to be executed neither at the level of raions or at the level of settlements, while the financial backing for the issues faced by settlements under this Law is to be provided on the basis of an estimate of revenues and expenditures, which are to be part of the budget of the municipal raion on whose territory a given settlement is located.

The estimate of a settlement’s revenues and expenditures, necessary for determining the volume of funding, is based on the number of the settlement’s population and the per capita rate of budget sufficiency needed for the execution of the settlement’s powers, as established by the Law on the oblast’s 2006 budget, and is to be approved by the Annex to the decision on the budget of a municipal raion for the year 2006, specified for each settlement. The estimates of revenues and expenditures of settlements are to be approved by the representative bodies of settlements. A settlement’s local administration is the main executor of the funds covered by its summary estimate of revenues and expenditures.

Kemerovo Oblast

Law of Kemerovo Oblast of 16 December 2005, No. 149-OZ, “*On the procedure for settling the issues of local importance by municipal formations during the transition period*” (in the wording of the Law of Kemerovo Oblast of 8 February 2006, No. 30-OZ) has been adopted for the period of 3 years. The Law regulates competence issues and determines the system of financing (for newly created settlements – by estimate) and the procedures for municipal property division.

As is clear from the Law's title, it establishes the issues of local importance not only for newly created settlements, but also for other existing and newly created municipal formations in Kemerovo Oblast. To all the city okrugs, among which there is also one newly created city okrug – an urban-type settlement of Krasnobrodskii, the full range of issues and powers, depending on their decision, is granted. For municipal raions, including the newly created Promyshlennovskii raion, full range of competence has also been established.

With due regard for all those specific features characterizing the territorial organization of local self-government in the oblast, the regional lawmakers have chosen different models of power division between the raion and settlement levels in Promyshlennovskii raion and in all the other 18 raions within the oblast. Thus, while in the “old” raions only some of the issues of local importance listed in Article 14 of Law No. FZ-31 have been delegated to newly created settlements, all the other issues being delegated to raions, on the territory of Promyshlennovskii raion the existing settlements (13 village councils and settlements) have the right to deal with all the issues of local importance established by federal legislation.

As for the range the issues of local importance delegated to new settlements, it differs little from that established in those other regions where variant 2 has been chosen: settlements are endowed with the powers to deal with 18 issues out of those listed in Article 14 of Law No. FZ-131, while to raions 12 issues are delegated, among which there are the most important “resource-generating” powers. Thus, local taxes on the territories of new settlements are to be established, introduced into actual practice and abolished in accordance with RF legislation and the normative – legal acts issued by the representative body of the municipal raion on whose territory those settlements are located.

One specific feature of Kemerovo's legislation is the detailed procedure for the division of powers, listed in Article 17 of Federal Law No. 131-FZ, between settlements and raions. In this connection, the bodies of local self-government of newly created urban and rural settlements have been deprived of many very important powers relating to issues of local importance, which are as follows:

- the creation of municipal enterprises and institutions, the financing of municipal institutions, the preparation and placement of municipal orders;
- the establishment of the tariffs on services provided by municipal enterprises and institutions, if not stated otherwise by federal laws;
- the organizational and material-technical backing for the preparation and conduct of municipal elections, local referendums, the voting for the recall of a deputy, or a member of an elective body of local self-government, or an elective official from the local self-government, or the voting concerning the issues relating to changes of the borders of municipal formations or to the transformation of municipal formations;
- the adoption and organization of the implementation of plans and programs for comprehensive socio-economic development of municipal formations, as well as the organization of the collection of statistical data indicative of the status of the economy and the social sphere of municipal formations, and the submission of the aforesaid data to the bodies of state authority in the procedure established by the Government of the Russian Federation;
- the regulation of the tariffs on the goods and services provided by the organizations belonging to the utilities complex (with the exception of the tariffs on the goods and services provided by those organizations belonging to the utilities complex that produce such goods and services in the sphere of electric power supply and (or) heating), the tariffs on the inclusion into the utilities infrastructure system, the tariffs established for the organizations of the the utilities complex for the inclusion into their systems, the surcharges on the tariffs on the goods and services provided by the organizations belonging to the utilities complex, and the surcharges on the prices (or tariffs) established for consumers.

At the same time, from the list of powers to be executed by the bodies of local self-government of municipal raions on the territories of newly created urban and rural settlements the following powers have been excluded:

- the adoption of the charter of a municipal formation and the introduction therein of changes and amendments, and the issuing of municipal legal acts;
- the establishment of official symbols of municipal formations;
- the foundation of an organ of the press for the publication of municipal legal acts or other official information;
- the execution of international and foreign economic connections in accordance with federal laws.

To the budget of that municipal raion in Kemerovo Oblast, on whose territory a given settlement is located, the latter's tax and non-tax revenues of settlements are to be transferred, as well as the monies generated by the self-assessment taxation of the settlement's residents, as envisaged in Article 56 of Law No. FZ-131. The monies generated by the self-assessment taxation of the residents of newly created urban and rural settlements and received by the budget of a municipal raion, are to be allocated to the implementation of measures approved by the decision of the referendum (or citizens' meeting) conducted at a settlement.

The estimate of revenues and expenditures of a newly created urban or rural settlement is to be approved by the representative body of a municipal raion in the form of an annex to the legal act on the municipal raion's budget for the next financial year. The procedure for the development, execution, and the control of the execution of the estimates of revenues and expenditures of newly created urban and rural settlements, as well as the procedure for submitting reports on the execution of those estimates, are to be established by the Collegium of the Administration of Kemerovo Oblast.

In respect to the procedures for property division, the Law envisages that the bodies of local self-government of municipal raions and settlements are to submit their proposals concerning the division of objects of municipal property to the body of executive authority empowered by the Collegium of the Administration of Kemerovo Oblast (hereinafter – the empowered body), in the procedure and within the timelines established by a decree issued by the Collegium of the Administration of Kemerovo Oblast. The aforesaid proposals are to be submitted in the form of a

summary list of objects of municipal property, which should include the following items:

- the list of objects of municipal property necessary for a given municipal formation to deal with its issues of local importance in accordance with the Federal Law;
- the list of objects of municipal property earmarked for the transfer into municipal ownership of another municipal formation.

On the basis of the summary lists of objects of municipal property submitted by municipal formations, the empowered body prepares the list of objects of municipal property earmarked for the transfer into municipal ownership of appropriately designated municipal formations. This list is to be approved by a law of Kemerovo Oblast.

In Kemerovo Oblast it is envisaged that during the transition period, until the division of state land property, the disposal of the plots of lands which are state property should be executed by the bodies of local self-government of municipal raions and city okrugs within the limits of their powers, if not envisaged otherwise in federal legislation.

Koriak Autonomous Okrug

Okrug Law of 14 December 2005, No. 103-OZ, *“On the procedure for settling the issues of local importance in the newly created municipal formations in the Koriak Autonomous Okrug”* was adopted for the period of three years. The Law regulates competence issues and establishes that the execution of powers by newly created settlements should be financed by estimate. In the Law, those municipal formations to which the provisions stipulated therein are to be applied – the rural settlements named “village Ayanka”, “village Slautnoe”, “village Talovka”, “village Kostroma”, “village Karaga”, “village Il’pyskoe”, “village Voyampolka”, – are listed, as well as and those municipal raions on whose territories these settlements are located.

As in many other RF subjects, in the Koriak AO “the principle of residuality” has been chosen for the assignation of issues of local importance to municipal raions. For newly created rural settlements, the Law has established 16 issues, among which there are the powers for managing the municipal property of settlements, HUS and housing issues. All the other issues (a total of 14), including budgeting powers, the powers to

impose taxes, for territorial planning, etc. have thereby been delegated to the raion level.

The Law has neither its own specific features nor any detailed regulation of the issues of financial backing. It establishes that the revenues and expenditures of rural settlements listed in the Law are to part of the budgets of municipal raions. Besides, in order to provide for the settling of issues of local importance and the execution of related powers, the division of property between the settlements and those municipal raions on whose territories the former are located is to be determined by a separate law adopted by the subject of the Russian Federation. During the three-year transition period, these municipal formations enjoy the right to use this property, without compensation, for purposes of executing their powers relating to issues of local importance, until the moment of registration of that property.

Moscow Oblast

Law of Moscow Oblast of 2 November 2005, No. 231/2005-OZ, *“On the procedure for settling the issues of local importance in the newly created settlements in the territory of Moscow Oblast during the transition period”* (in the wording as of 15 April 2006, No. 56/2006-OZ, and as of 14 June 2006, No. 89-2006-OZ) was adopted for the period of three years.

In the existing wording of this law, with its most recent amendments made in April and June 2006, not only competence issues are regulated, but also the principle of financing settlements by estimate and the procedure for property division. The Law envisages the possibility of agreements to be made concerning the transfer of powers between the bodies of local self-government of settlements and municipal raions.

For newly created settlements, a list of 18 issues of local importance is established. When analyzing this list, one cannot but notice the altered definitions of some of the issues, e. g., those corresponding to Items 3, 6 and 20 of the Federal List established in Article 14 of Law No. FZ-131. Thus, Item 3 – “ownership, use and disposal of municipal property owned by settlement” has been transformed, in the regional law, into “the right to use property without compensation”, while the wording of Items 6 and 20 has been cut (or simplified) as follows:

- the issue of the provision for citizens with low income, who reside in a settlement and are in need of improving their housing conditions, and the organization of construction for settlements, has been cut to “*a settlement’s participation in the organization of construction*”;
- instead of the large amount of work associated with the approval of general plans for the development of settlements, the rules for the use of lands and the construction thereon, and other processes of territory planning, to the new settlements of Moscow Oblast only “*the coordination of general plans of settlements and the documentation for territory planning in settlements prepared on their basis*” have been left.

It should be noted that the changed wording lacks clarity when determining the powers of the bodies of local self-government responsible for this issue, since it is not specified with whom the settlements’ bodies are to participate in the organization of construction, or with whom they should coordinate the general plan of a settlement and the territory planning documentation.

It is also unclear how those powers, which have been in part withdrawn from the three aforesaid issues on the territory of Moscow Oblast, are going to be executed, for example, who and in what way is going to own and dispose of property, provide housing to the citizens with low income, issue of construction permits, execute land control, etc., because the Law is structured in such a way that for the raion level of administration the list of such issues has not been established, either.

In accordance with Part 2 of the Law of Moscow Oblast, all the remaining issues of local importance specified in Article 14 of Law No. 131-FZ, but not assigned to settlements, must be dealt with at the level of municipal raions; thereby the Law has established “the principle of residuality” for municipal raions. According to this principle, to the bodies of municipal raions the powers to form, approve, execute and control the execution of the local budgets of new settlements have indeed formally been delegated. However, on the other hand, the Law has clearly pointed out that the estimate of the revenues and expenditures of a settlement should be part of the budget of a municipal raion, subject to approval by the raion’s representative body.

The powers pertaining to HUS, transportation services, the maintenance of cemeteries, and many others, have been assigned to raions. Considering that the newly created urban settlements in Moscow Oblast are rather big and industrially developed towns (Sergiev Posad, Khimki, etc.), it is difficult to understand the reason behind the decision of the oblast authorities to deprive such entities of their most important powers.

One of the specific features of this Law of Moscow Oblast is that the established list of issues of local importance for newly created settlements can be modified not only by directly changing the list itself, but also by adopting a separate oblast law for a given settlement only (a similar possibility is also envisaged in the general Law of Leningrad Oblast). In accordance with the Law of Moscow Oblast, the proposals as to making changes to the list of issues of local importance assigned to settlements are to be submitted by heads of settlements, in coordination with the councils of deputies of settlements, to the Governor of Moscow Oblast no later than six months before the beginning of a new financial year. The procedure for considering the proposals concerning the changes to the list of issues of local importance assigned to settlements is established by the Governor of Moscow Oblast.

Another specific feature of the Law of Moscow Oblast is that it determines those issues that are to be dealt with jointly by settlements and municipal raions on the basis of agreements made between them. These issues are as follows:

- the participation in the organization of construction and maintenance of the municipal housing fund, and the creation of appropriate conditions for housing construction;
- the participation in the prevention and liquidation of the consequences of emergency situations within the borders of settlements;
- the participation in the organization of library services for the population;
- the creation of appropriate conditions for leisure and provision of the residents of a settlement with the services of cultural organizations.

During the transition period, the Law of Moscow Oblast grants to settlements and municipal raions the right to delegate various issues of local importance from one of these levels to the other. In this connection, it is

specified that settlements have the right only to delegate issues from the regional list, which contains 18 issues of local importance, but no system for the financing of the delegated issues is determined. Also noteworthy is that the Oblast Law specifies the delegation of issues of local importance proper, and not just some of the powers assigned to the bodies of local self-government of a given settlement and being delegated to the raion bodies at the expense of subventions from the budget of a settlement. This approach is contrary to Part 4 of Article 15 of Law No. FZ-131, as well as to the fundamental principle of independence of the bodies of local self-government in the execution of their powers, for which they are accountable, first of all, to the residents of a given settlement.

The newly created settlements in Moscow Oblast are to be financed by the estimate of revenues and expenditures of each of the settlements, which should be part of the budget of the municipal raion on whose territory these settlements are located. In April 2006, this Law of Moscow Oblast was amended. In particular, it was augmented by the definition of the estimate of revenues and expenditures of a settlement, the procedure for the approval of those estimates was established, and the procedure for reflecting in the estimate the expenditures on the upkeep of the bodies of local self-government and the execution of their powers.

In June 2006, the Law was further augmented by norms whereby the issues of municipal property division between municipal raions and the settlements located on their territories were regulated. For performing the task of making lists of municipal property, to be transferred into the ownership of settlements, the creation of conciliation commissions for municipal property division is envisaged, whose composition is to be determined by the head of a given municipal raion for each of its settlements. The lists of property being transferred into the ownership of settlements are to be approved by laws of Moscow Oblast on municipal property division. On the basis of these laws, the bodies of local self-government of municipal raions must transfer property, while the bodies of local self-government of settlements must receive it in accordance with a deed of property, in accordance with the form established by the Government of Moscow Oblast.

Murmansk Oblast

Law of Murmansk Oblast of 26 December 2005, No. 714-01-ZMO, “On the procedure for settling the issues of local importance by newly created urban and rural settlements during the transition period” has no specified period of operation, but the division of issues of local importance between newly created settlements and raions has been established for the year 2006 only. In addition to competence issues, the Law regulates the issues of financing the settlements (by estimate) and property division.

The Law contains two lists of issues of local importance: one for settlements (11 issues), the other – for municipal raions (16 issues). In this connection, to settlements the powers for property management, transportation services and some other powers, which are not resource-consuming, are consolidated, while municipal raions are to execute all the budgeting powers (the formation, approval, execution and control of the execution of the budget), the tax powers, the powers relating to the provision of utilities, territorial planning, etc.

The revenues and expenditures of settlements are envisaged as component parts of the budgets of municipal raions, in the form of estimates of revenues and expenditures for each of the newly created settlements. The formation of the expenditures of settlements within the budgets of municipal raions is possible within the amount of the revenues received by settlements, to be approved by a budget decision of the representative body of a municipal raion. The representative bodies of local self-government of settlements must participate in the preparation of the draft budget of their municipal raion, as well as in its execution and control over its execution. The administrations of settlements have the rights and bear responsibilities as principal managers of the budget funds of the municipal raion, in the part of expenditures on the financial backing for the powers delegated to the bodies of local self-government of settlements in respect to the issues of local importance of settlements, as established in this Law.

The lists of property being transferred to the bodies of local self-government of settlements for use without compensation is to be estab-

lished by the representative bodies of municipal raions in coordination with the representative bodies of settlements.

Nizhnii-Novgorod Oblast

Law of 22 December 2005, No. 208-Z, *“On the procedure for settling the issues of local importance in some settlements of Nizhnii-Novgorod Oblast in the year 2006”* was adopted for the period of one year. It regulates **competence issues**, establishes the principle of financing settlements by estimate, and does not address the procedures of property division.

The Law’s first specific feature relates to its subject of regulation, that is, those “separate” settlements listed in the Law. These are 13 big towns, 4 workers’ settlements and 21 village councils, as well as those municipal raions on whose territory the aforesaid settlements are located. It is not quite clear from the Law’s wording whether these “separate” settlements have indeed been newly created.

The second specific feature consists in the limited character of the list of issues assigned to these settlements. Despite the marked variations in their socio-economic potential, and hence the varying conditions for the execution of local self-government, the regional lawmakers have selected for the first year of municipal reform only the following three issues of local importance:

- the participation in the prevention and liquidation of the consequences of emergency situations within the borders of settlements;
- the provision of primary measures of fire safety within the borders of the population units of settlements;
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets, and other consumer services.

All the other issues of local importance listed in Article 14 of Law No. FZ-131 are delegated to municipal raions.

The financing of settlements is based on the estimate of their expenditures, subject to approval by the representative bodies of municipal raions. The Law contains provisions concerning a raion’s right to use property without registering the right of ownership thereto, but does not mention the existence of any similar right for settlements. In an event of

disputes and disagreements arising in respect to the issues of local importance assigned to settlements, by order of the Governor of Nizhni-Novgorod Oblast a conciliation commission is to be created.

Orenburg Oblast

Law of Orenburg Oblast of 15 December 2005, No. 2843/500-III-OZ, *‘On the specific features of implementing Federal Law of 06.10.2003, No 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”, during the transition period’*, has the period of operation of one year.

This Law regulates competence issues, establishes the specific features of the procedure for forming the local budgets of settlements, and the procedure for municipal property division.

To municipal raions, 8 issues are delegated, while to newly created settlements – 21 issues of local importance, including the following:

- the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget;
- the establishment, changes to and the abolition of local taxes and levies in settlements;
- the ownership, use and disposal of municipal property owned by a settlement.

It the transfer to the settlement level of these three issues of local importance that makes Orenburg Oblast different from the majority of Russian regions. At the same time, the Law contains a provision that impedes the independent execution by settlements of their tax powers during the transition period. According to Article 7 of this Law, the land tax and the personal property tax, payable on the territories of newly created settlements throughout the year 2006, are to be established, introduced and abolished in accordance with RF legislation and the normative-legal acts issued by the representative body of the municipal raion on whose territory those settlements are located.

One more specific feature of Orenburg Oblast is the way two issues of local importance on the federal list (the provision of utilities services to the population and territorial planning) are divided between raions and settlements.

In particular, settlements are responsible for the organization of water supply to the population and draining systems, while raions – for the organization, within the borders of settlement, of electric power, gas and water supply, drainage, and supply of fuel to population. This approach can be explained by the existence of appropriate utilities infrastructure in the Oblast's raions.

The division of issue No. 20 (territory planning) is based on an approach that has distinct political coloring:

- Raions have the right to approve general plans for the development of a settlement, the rules for the use of lands and the construction thereon, to approve local urban construction norms for the planning of settlements, the reservation and withdrawal, including by buying-out, of plots of land within the borders of settlement needed for municipal use, and the execution of land control over the use of a settlement's lands.
- Settlements are to approve the documentation prepared on the basis of general plans of settlement for their territory planning, issue permits for certain objects to be put in operation, and issue construction permits.

Besides, by a separate provision in the Law it is established that the bodies of local self-government of municipal raions are to dispose of the land funds in newly created settlements until the division of state ownership of land. In actual practice, this has resulted in a situation when the bodies of local self-government of settlements sometimes refuse to issue construction permits on the grounds that it is not they who have approved the general plan of a settlement or the construction rules, or have assigned plots of land for construction, which means a conflict of interests.

The specific feature of the formation of the local budget of a settlement during the transition period is the transfer of the land tax at the rate of 20% instead of 100%, as it is established by the RF Budget Code. In addition to the deductions from federal taxes established by the Law, the land tax is also transferred to the budgets of municipal raions, at the rate of 80%.

In contrast to the laws adopted by many other RF subjects, the Law of Orenburg Oblast determines the procedures for dividing the objects of municipal property between municipal formations:

- The bodies of local self-government are to submit their proposals concerning the division of the objects of municipal property to the empowered body of executive authority of Orenburg Oblast. The proposals are submitted in the form of a summary list of objects of municipal property, which includes:
 - the list of objects of municipal property needed by a given municipal formation for independent decision-making in respect to its issues of local importance in accordance with Law No. FZ-131;
 - the list of objects of municipal property earmarked for the transfer into the municipal ownership of another municipal formation.
- On the basis of these submitted lists, the empowered body of Orenburg Oblast compiles the list of objects of municipal property to be consolidated to appropriate municipal formations. In an event of necessity, when compiling the list of objects of municipal property of a municipal raion, the empowered body has the right to establish conciliation commissions with the participation of the representatives of related parties.
- The division of objects of municipal property between a municipal raion and the settlements located within its borders is effectuated with due regard to the established procedure for the redistribution of issues of local importance, and is to be approved by a law of Orenburg Oblast.
- Before the formalization of property rights, the bodies of local self-government are obliged to complete the transfer of objects of municipal property to municipal formations, to be used without compensation on the basis of and in accordance with the list approved by a law of Orenburg Oblast.
- The bodies of local self-government, before 1 January 2008, are obliged to formalize the right of ownership in respect to the objects of municipal property transferred to them for the use without compensation.

Primorskii Krai

Law of Primorskii Krai of 24 November 2005, No. 299-KZ, “*On the procedure for settling the issues of local importance in settlements during the transition period*” (in the wording of Law of Primorskii Krai of 10 April 2006, No. 347-KZ) was adopted for the period of three years.

The Law regulates competence issues, establishes the principle for financing settlements by estimate and the procedure for the interaction between settlements and raions in their use and ownership of property during the transition period, without touching upon the problems relating to municipal property division.

The specific feature of this law, which distinguishes it from other regional laws, is the sheer length of its text, which results from partial, and sometimes excessive, repetition of the federal regulations, as well as the introduction of some regional specificities. Thus, for example, the Law contains an article entitled “The principles of legal regulation of decision-making in respect to issues of local importance faced by settlements during the transition period”, where the independence of the bodies of local self-government is proclaimed, as well as the possibility of any changes to be made to the lists of issues of local importance established for settlements and municipal raions only in accordance with that Law. Besides, it imposes a ban on the transfer of the right to execute some of the powers consolidated by that Law in the jurisdiction of the bodies of local self-government of settlements and municipal raions.

As for the division of competence areas, the majority of issues from the federal list of issues of local importance, with the powers for their execution, are placed within the jurisdiction of settlements, while a small number of the issues and powers, which are, nevertheless, important in terms of municipal development, is consolidated in the jurisdiction of municipal raions:

- the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget;
- the establishment, changes to and the abolition of local taxes and levies in settlements;

- the organization, within the borders of settlement, of electric power, gas and water supply, drainage systems, and supply of fuel to population;
- the maintenance and construction of public motor roads, bridges and other transport engineering facilities within the borders of population units of settlements, with the exception of public motor roads, bridges and other transport-related engineering structures of federal and regional importance;
- the provision for citizens with low income, who reside in settlement and are in need of improving their housing conditions, with dwelling premises in accordance with housing legislation, the organization of construction and maintenance of municipal housing, and the creation of appropriate conditions for housing construction;
- the creation of appropriate conditions for leisure, and the provision of the residents of a settlement with the services of cultural organizations;
- the organization of library services to the population;
- the approval of general plans for the development of settlements, the rules for the use of lands and the construction thereon, the approval of the documentation prepared on the basis of these general plans of settlements for the planning of territories, the issuing of permits for construction and the permits for certain objects to be put in operation, the approval of local urban construction norms for the planning of settlements, the reservation and withdrawal, including by buy-out, of the plots of land within the borders of a settlement needed for municipal use, and the execution of land control over the use of settlements lands.

Specific features of property relations.

The regulation of property relations follows the logic of the Federal Law, that is, the types of property are listed that can be owned by settlements for purposes of dealing with the issues of local importance included in the regional list. However, while the rights of ownership, use and disposal of property are established, some types of property are definitely excluded therefrom:

- the property needed for electric power, gas and water supply, drainage, and supply of fuel to population, and for the lighting of streets in the settlements;
- public motor roads, bridges and other transport engineering facilities located within the borders of the population units of settlements, with the exception of public motor roads, bridges and other transport-related engineering structures of federal and regional importance, as well as property needed for their maintenance;
- the housing fund assigned to social needs, for the provision of citizens with low income, who reside in settlements and are in need of improving their housing conditions, with dwelling premises on the basis of a social lease agreement, as well as property needed for the maintenance of the municipal housing fund;
- libraries;
- property assigned to the organization of leisure and provision of the residents of a settlement with the services of cultural organizations.

Besides, in the current wording of the Law of Primorskii Krai, it is established that:

- the procedure and the conditions for the privatization of municipal property are to be determined by the normative – legal acts issued by the bodies of local self-government of settlements in accordance with federal laws⁵⁰;
- the bodies of local self-government of a municipal raion, in the name of settlements, are to independently own, use and dispose of that part of municipal property that has been withdrawn from the property of settlements (see subitems 1–5), which should, however, be done in the procedure established by the normative – legal acts issued by the bodies of local self-government of a settlement, without the right of its alienation into the ownership of other subjects of civil rights;
- the revenues from the use and privatization of municipal property of settlements are to be transferred to the budget of a municipal raion.

⁵⁰ In respect to this norm, an objection by the Procurator was issued, after which it was amended by an additional stipulation concerning the compatibility with federal laws.

Specific features of interbudgetary relations

- To the budget of the municipal raion on whose territory settlements are located, the latter's tax and non-tax revenues are to be transferred.
- To the budget of the municipal raion on whose territory settlements are located, the monies generated by the self-assessment taxation of the citizens residing in those settlements are transferred, as envisaged in Article 56 of Law No. FZ-131. The monies being transferred to the budgets of the municipal raion are to be used in accordance with the decisions of local referendum. This item in the Law appears to be very disputable, and it is unclear which referendum is meant – the one on the territory of a settlement, or the one on the territory of a municipal raion.
- The subventions from the Krai Compensation Fund to back the execution of the state powers of Primorskii Krai, relating to the equalization of the budget sufficiency of settlements by the bodies of local self-government of municipal raions are to be transferred to the budgets of municipal raion and distributed between settlements for purposes of resolving the issues of local importance assigned to them, which are listed in this Krai Law. In an event of funding being insufficient for the issues of local importance to be adequately dealt with by settlements, the bodies of local self-government of municipal raions have the right to allocate thereto the revenues of their own budgets.
- The monies allocated to the issues of local importance of settlements must be recorded as a separate entry in the budget of a municipal raion.

Pskov Oblast

Law of 5 December 2005, No. 490-OZ, *“On the procedure for settling the issues of local importance in the newly created settlements in the period of the year 2006–2008”* was adopted for the period of three years. It regulates competence issues and established the “by-estimate” principle for the financing of newly created settlements.

Within the jurisdiction of settlements, only 11 minor issues of local importance are placed, while the other 16 issues are delegated to municipal raions. The local budgets of newly created urban and rural settlements

are not to be formed. The revenues and expenditures of the newly created settlements are to constitute part of the local budgets of those municipal raions on whose territories they are located, while the tax revenues transferable to the budgets of newly created settlements are to be transferred to the budgets of municipal raions.

Riazan Oblast

Law of Riazan Oblast of 20 December 2005, No. 141-OZ, *“On the procedure for settling the issues of local importance in the newly created municipal formations (or settlements) of Riazan Oblast in the year 2006”* was adopted for the period of one year. It regulates competence issues and determines the specific features of the financing of newly created settlements and the specific features of the agreements being made between the settlements and municipal raions for the transition period. The problems of property division are not regulated by this Law.

The Law also establishes “the principle of residuality” for the issues of local importance to be dealt with by municipal raions, thus placing at the raion level all the issues on the federal list, specified in Article 14 of Law No. FZ-131 in its current wording, with the exception of the issues assigned by the regional Law to newly created settlements. A total of 12 issues of local importance are assigned to settlements.

The Law allows for some of these issues to be delegated to municipal raions by agreements. Municipal raions also have the right to transfer, by agreements, those settlement-related issues that have been delegated to them under this regional Law. It should be pointed out that these provisions in the Law of Riazan Oblast are in contradiction to Item 4 of Article 15 of Law No. FZ-131, whereby the bodies of local self-government have only the right to delegate some of their powers at the expense of subventions from the budget of an appropriate level.

The powers to establish, change and abolish the local taxes and levies in settlement has been left with municipal raions, which logically is compatible with those provisions in the Law whereby local taxes are to be established, introduced or abolished in accordance with RF legislation and the normative-legal acts issued by the representative body of the municipal raion on whose territory the aforesaid settlements are located (in this, this Law differs from the controversial legislation of Orenburg

Oblast, whereby the tax powers are transferred to settlements, while the local taxes on the territories of settlements are established by the normative-legal acts of municipal raions).

Tax and non-tax revenues, as well as the monies generated by the self-assessment taxation of the citizens transferable to the budgets of newly created settlements, are to be transferred to the budget of the municipal raion on whose territory the aforesaid settlements are located. The estimate of revenues and expenditures of a newly created settlement is to be approved by the representative body of a municipal raion in the form of an annex to the legal act concerning the municipal raion's budget for the next financial year. The monies allocated to the issues of local importance being dealt with by newly created settlements are to be reflected as a separate entry in the budget of a municipal raion.

Samara Oblast

Law of Samara Oblast of 7 December 2005, No. 208-GD, "On the procedure for settling the issues of local importance in the settlements on the territory of Samara Oblast in the year 2006" was adopted for the period of one year. It regulates competence issues and establishes special procedure for the financing of newly created settlements.

The Law established "the principle of residuality" for settlements. To municipal raions, it assigns 14 issues of local importance. The comparison between the two regional lists (for settlements and raions) makes it possible to conclude that the issues of greater importance, in terms of local development, have been delegated to the raion level.

The first specific feature of the Samara law is the division of the first issue on the list (the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget) into three parts:

- *the approval of the budget of a settlement*, this power has been delegated to newly created settlements;
- *the formation and execution of the budget of a settlement*, this power has been delegated to municipal raions;
- *the control over the execution of the budget of a settlement by the body executing the budget*, this power has also been delegated to municipal raions.

Thus, the bodies of local self-government of settlements are allowed only to approve the budget prepared for them by the raion authorities, and controlled by these authorities.

As the second specific feature of the Law, we can point out the division, between raions and settlements, of the powers pertaining to territorial planning (Issue No. 20 on the federal list). In this connection, raions are allowed to issue permits for construction and permits for certain objects to be put in operation, to approve the local urban construction norms for the planning of settlements, while settlements still have the right to approve general plans for the development of a settlement, the rules for the use of lands and the construction thereon, to approve the documentation prepared on the basis of these general plans for the planning of territories, to reserve and withdraw, including by buying-out, the plots of land within the borders of settlement needed for municipal use, and to execute land control over the use of a settlement's lands. It should be noted that the choice of this method for dividing this issue of local importance is the direct opposite of the method applied in Orenburg Oblast.

To the raion authorities, among others, the following issues are delegated:

- the establishment, changes to and the abolition of local taxes and levies in settlements;
- the organization, within the borders of a settlement, of electric power, gas and water supply, drainage, and supply of fuel to population.

To settlements, the ownership, use and disposal of municipal property owned by settlement is consolidated, but no specific procedures for property division are introduced by this Law.

The procedure for financial backing of the implementation of this Law introduced in Samara Oblast is as follows:

- the tax revenues earmarked in the RF Budget Code as transferable to the budgets of settlements (Article 61) are to be transferred to the budget of a municipal raion;
- by a normative-legal act issued by the representative body of a municipal raion (with the exception of the decision concerning the budget of a municipal raion for the next financial year, or another such decision with a limited period of effect), uniform normative

rates of deductions from federal, regional and (or) local taxes and levies, or taxes envisaged within the framework of special tax regimes, transferable to the budget of a municipal raion, may be established for all the settlements located within a given municipal raion;

- the non-tax revenues of the budgets of municipal raions and settlements, formed in accordance with the RF Budget Code, are transferable to the budgets of municipal raions and the budgets of settlements, respectively;
- to the budgets of settlements, dotations are to be granted from the raion fund for the financial support of settlements, which is formed from the resources of the regional compensation fund earmarked for dotations to the budgets of settlements, and from revenues proper from the budget of a municipal raion.

Saratov Oblast

Law of Saratov Oblast of 28 November 2005, No. 108-ZSO, “*On the procedure for settling the issues of local importance by bodies of local self-government in the newly created settlements of Saratov Oblast in the year 2006*” was adopted for the period of one year. It regulates only competence issues, without touching upon the financial backing for the execution of powers, or property relations.

Only assumptive conclusions can be drawn concerning the “by-estimate” principle applied in the financing of settlements, judging by the fact that the budgeting and tax powers are delegated to municipal raions⁵¹. To settlements, only 10 issues of local importance are consolidated, among those the ownership, use and disposal of municipal property owned by a settlement.

Sverdlovsk Oblast

Law of Sverdlovsk Oblast of 10 December 2005, No. 117-OZ, “*On settling, in the year 2006, the issues of local importance in the settlements created in the year 2004 in the territory of Sverdlovsk Oblast*” (in the wording as of 2 February 2006, No. 7-OZ)” was adopted for the period of one year. The Law regulates competence issues and establishes the pro-

⁵¹ The principle of financing the settlements by estimate in 2006 was confirmed by the Law of Saratov Oblast on the 2006 budget.

cedure for the formation and execution of the local budget of a municipal raion, introducing the “by-estimate” principle for the financing of settlements. The issues of property division are not regulated by this Law.

The Law assigns to settlements 14 issues of local importance out of those on the federal list, and 14 issues – to raions. In this connection, additional powers are delegated to the raion level of administration, relating to the normative regulation of issues of local importance and increasing the influence of raion-level authority on the execution of local self-government in settlements, in particular in respect to the following issues:

- the distribution of powers to make decisions concerning that part of the issues of local importance, which has been assigned to newly created settlements, between the bodies of local self-government of those municipal raions on whose territory the aforesaid settlements are located, is to be effectuated by the representative bodies of municipal raions.
- the bodies of local self-government of municipal raions have the right to adopt municipal legal acts concerning the issues of local importance in those newly created settlements that are part of municipal raions, these issues being listed in Part 1 of this Item of the Law, to be in operation during the year 2006. The representative bodies of local self-government of municipal raions are to adopt municipal legal acts concerning these issues with due regard for the opinion of the bodies of local self-government of those newly created settlements which are located on the territory of each municipal raion.
- The expenditures on the activity of the bodies of local self-government and the officials in the local self-government of municipal raions, aimed at resolving the issues of local importance faced by the newly created settlements located on the territories of municipal raions, are to be executed in accordance with decisions made by the bodies of local self-government of municipal raions.

The fact that it was possible to introduce these powers in addition to the federal list can be explained by the vagueness of the term “the procedure for resolving the issues of local importance”, for which no precise definition is offered by Federal Law No. 129-FZ.

Two most significant issues of local importance – “*the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget*”, and “*the establishment, changes to and the abolition of local taxes and levies in settlements*” are listed among neither the raion-level nor the settlement-level powers. However, they actually have been delegated to municipal raions. This conclusion can be drawn from the following provisions in the Law of Sverdlovsk Oblast:

1. During the formation of the budgets of municipal raions for the year 2006, as components of these budgets, the revenues and expenditures of the newly created settlements located in those municipal raions are envisaged. The revenues transferable to the budgets of newly created settlements, in accordance with budget legislation of the Russian Federation, in 2006 are to be transferred to the budgets of those municipal raions on whose territory those settlements are located. The dotations from the Oblast Fund for financial support of settlements, transferable to the budgets of newly created settlements, in accordance with the Federal Law are to be transferred in 2006 to the budgets of those municipal raions on whose territory those settlements are located. The bodies of local self-government of newly created settlements in 2006 are the principal distributors, managers and (or) recipients of funding from the budgets of those municipal raions on whose territory the aforesaid settlements are located.

2. In 2005, in the newly created settlements, the bodies of local self-government of municipal raions should establish, introduce or abolish the land tax and the personal property tax, due to be paid for the period of the year 2006 on the territories of the aforesaid settlements, in accordance with the normative-legal acts issued by the representative bodies of municipal raions.

Tver Oblast

Law of Tver Oblast of 9 December 2005, No. 142-ZO, “*On settling, by the bodies of local self-government of Tver Oblast, of certain issues of local importance in the newly created settlements in Tver Oblast*” was adopted for the period of one year. By Law of Tver Oblast of 16 March 2006, No. 20-ZO, it was amended, and the definitions of some issues of local importance were corrected due to changes introduced in federal leg-

isolation. The Law regulates competence issues and the procedure for the financial backing for the powers being granted, as well as determines the regional specificities of the agreements concerning the transfer of powers between settlements and municipal raions.

To municipal raions, 13 issues of local importance are delegated, and in an event of further amendments being made to the federal list in Article 14 of Federal Law No. 131-FZ, other issues will be added to the list of issues of local importance assigned to municipal raions.

To newly created settlements, 16 issues are delegated, among which there are the budgeting powers, all the tax powers, as well as the ownership, use and disposal of municipal property owned by a settlement.

The Law also has some specific features:

- Budgeting powers are redistributed between a municipal raion and settlements in the following way: the budget of a settlement is to be formed and executed by the raion authorities, while its approval and the control over its execution is the prerogative of the settlement's bodies of local self-government.
- The powers for territory planning have also been redistributed. In this connection, the following powers are consolidated to settlements:

“the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of the documentation prepared on the basis of these general plans of a settlement for the planning of its territories”.

To municipal raions, the following powers are consolidated:

“the issuing of permits for construction and permits for certain objects to be put in operation, the approval of local urban construction normatives for the planning of settlements, the reservation and withdrawal, including by buying-out, of the plots of land within the borders of settlement needed for municipal use, and the effectuation of land control over the use of settlements' lands”.

It should be noted that a similar order of redistribution is established in Samara Oblast, and the opposite exists on Orenburg Oblast.

- The Law envisages the possibility of changing the list of issues of local importance delegated to settlements and of redistributing the financial resources needed for dealing with those issues. These changes

should be initiated by the head of a newly created settlement. After the initiative has been coordinated with the representative body of that settlement, it is submitted for the consideration by the Governor of Tver Oblast, who can then put forth an appropriate draft law.

- The Law contains norms similar to those stipulated in Law No. FZ-131 concerning the right of the bodies of local self-government of settlements to make agreements with the bodies of local self-government of a municipal raion concerning the transfer, to the latter, of some of the former's powers at the expense of subventions from the budgets of settlements. At the same time, the Law forbids to the bodies of local self-government of municipal raions the delegation of their powers to the settlement level by agreements.
- The bodies of local self-government of settlements are financed from the local budgets formed from non-tax revenues and financial aid. The powers for equalizing the levels of budget sufficiency of newly created settlements are delegated to municipal raions.

For a more detailed analysis of reform of local self-government and interbudgetary relations in Tver Oblast, see subsections 4.2.3 and 4.3.3 of this paper.

Khanty-Mansi Autonomous Okrug (KMAO) – Yugra

Law of 2 December 2005, No.118-OZ, “*On the procedure for settling the issues of local importance by the bodies of local self-government of the municipal formations in the Khanty-Mansi Autonomous Okrug – Yugra during the transition period*” has the period of operation of 3 years. The Law regulates competence issues, determines the specific features of the financing of newly created settlements during the transition period, and contains no mention of property relations. Also, the Law envisages the right of certain settlements to make agreements with municipal raions concerning the transfer of some of the former's powers to them. According to the information from the KMAO, the practice of such agreements has become quite widespread.

To newly created settlements, only 10 issues of local importance have been delegated by this Law, among which there are some budgeting powers (the approval of the budgets of settlement), as well as the ownership, use and disposal of municipal property owned by settlement. Since the

raion-level powers are determined by the Law on the basis of “the principle of residuality”, the bodies of local self-government of municipal raions are to form, approve and control the budgets of settlements, as well as to execute the tax powers (the establishment, changes to and the abolition of local taxes and levies in settlements). A total of 20 issues of local importance have been delegated to raions.

In view of this method of redistributing budgeting powers, it is not easy to determine which principle is applied in the financing of settlements because, on the one hand, the representative bodies of local self-government of settlements are granted the right to approve the budget, while on the other, the following procedure is envisaged for the formation and execution of budgets:

- The revenues and expenditures of settlements are to be part of the budget of a municipal raion.
- The revenues transferable to the budgets of settlements are to be transferred to the budget of the municipal raion on whose territory those settlements are located.
- The formation and execution of the budgets of settlements, and the reporting concerning their execution, is the prerogative of the financial bodies of the municipal raions on whose territory those settlements are located, in the procedure established by the representative bodies of municipal raions. The bodies of local self-government of settlements participate in the formation and execution of the budgets of settlements in accordance with the aforesaid procedure.
- The report concerning the execution of the budget of a settlement is to be approved by the representative body of that settlement and submitted to the bodies of local self-government of a municipal raion for purposes of preparing a report concerning the execution of the budget of that municipal raion.
- In an event of settlements having no budgets of their own, the financing of their expenditures is executed by the bodies of local self-government of a municipal raion, in accordance with the normative – legal act on the budget of that municipal raion for the next financial year.

The procedure for resolving the disputes and disagreements arising between the bodies of local self-government of settlements and the bodies of local self-government of the municipal raions on whose territory those settlements are located in respect to the issues of property division, the transfer of powers, or the formation, approval and execution of budgets, or other issues, is to be determined by the Government of the Khanty-Mansi Autonomous Okrug – Yugra.

Tumen Oblast

In Tumen Oblast, Law of Tumen Oblast of 29 December 2005, No. 444, “*On local self-government in Tumen Oblast*” was adopted, whose transitional provisions determine the procedures for dealing with the issues of local importance faced by the bodies of local self-government of newly created settlements during the transition period. This Law regulates neither the financial backing for the powers of settlements nor property relations.

As stipulated in the transitional provisions, the bodies of local self-government of newly created settlements are to independently execute their powers for dealing with the issues of local importance listed in Article 14 of Federal Law No. 131-FZ. Besides, these provisions in the Law confirm the right of the bodies of local self-government of newly created rural settlements to make agreements concerning the transfer of their powers to the bodies of local self-government of municipal raions; also, it is established that the financial backing for the transferred powers relating to issues of local importance is to be executed in the procedure determined by the Law of Tumen Oblast on the oblast budget for the next financial year.

Although, from the formal point of view (or in terms of legislation), Tumen Oblast can be considered to have indeed implemented full-scale municipal reform (variant 1), the actual processes going on in that region make such a conclusion rather doubtful. In fact, within the framework of the division of the areas of competence between the bodies of municipal raions and newly created settlements, the oblast authorities organized local referendums “from above”. By assignment of the Governor, referendums were organized by the oblast’s electoral board and held in each settlement on 24 April 2005 simultaneously with municipal elections.

The local referendum among the rural residents of Tumen Oblast addressed three sets of issues:

- the approval of the structure of the bodies of local self-government;
- the approval of the charter of a municipal formation;
- the transfer of some issues of local importance by settlements to the municipal raion.

In respect to approving the structure of the bodies of local self-government, it was suggested that the residents should agree to a single organizational pattern, in particular to the following one:

- The whole representative body of local self-government of a settlement, including its chairperson, should work on a non-permanent basis.
- The head of a rural settlement should be the chairperson of the Duma of a rural settlement and be elected from among the deputies, with due regard for the opinion of the head of the municipal raion (the procedure for taking into consideration the opinion of a raion's head is determined in the Charter).
- The head of the administration of a rural settlement should occupy this post by contract, concluded on the basis of the results of a contest. The members of the contest commission are appointed by the Duma of the rural settlement, with 50% of them – on the presentation by the head of the municipal raion (the procedure for expressing the opinion of the head of the raion concerning the candidacy for the post of the head of a rural settlement's administration is determined in the Charter).

To the referendum, one variant of the draft charter of a settlement was presented, which determined the aforesaid structure of the administrative bodies and the list of issues of local importance. In the third set of questions, the respondents were asked to agree for the bodies of local self-government of a settlement to delegate to the bodies of local self-government of a municipal raion the execution of their powers for dealing with some issues of local importance. In this connection, it was suggested that 16 issues of local importance, out of those listed in Article 14 of Law

No. FZ-131, be transferred to raions⁵². To settlements only 11 issues of local importance were to be consolidated. Still, the powers in respect to the following three “resource-generating” issues remained with settlements:

- the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget;
- the establishment, changes to and the abolition of local taxes and levies in settlements;
- the ownership, use and disposal of municipal property owned by a settlement.

The results of the referendums were positive, and so the aforesaid transitional provisions in oblast legislation concerning full implementation of municipal reform are no longer in force.

The subgroup of regions in the second group: a step-by-step process of implementing municipal reform during the transition period

Ivanovo Oblast

The period of operation of Law of Ivanovo Oblast of 25 November 2005, No. 171-OZ, “On the procedure for settling the issues of local importance in urban and rural settlements of the municipal raions of Ivanovo Oblast” is three years. It regulates competence issues and establishes the “by-estimate” principle of financing for the execution of powers in newly created settlements. Property relations are not regulated by this Law.

The pattern of competence redistribution in Ivanovo Oblast is similar to the one chosen in Krasnodar Krai: the decision-making in respect to those issues of local importance that have not been transferred to settlements is executed by the bodies of local self-government of municipal raions (“the principle of residuality” for raions). However, the content of the issues being transferred to settlements is different.

From 1 January 2006 (the first phase of reforming), 15 issues of local importance out of those on the federal list are delegated to settlements,

⁵² In particular, issues of local importance No. 4–7, 11–15, 18–20, 22–25.

among which none are associated with “resource-generating” powers. Thus, to the settlement level the following powers have been delegated:

- the participation in the prevention and liquidation of the consequences of emergency situations within the borders of settlements;
- the provision of primary measures of fire safety within the borders of the population units of settlements;
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services;
- the protection and preservation of objects of cultural heritage (monuments of history and culture) of local (or municipal) importance, located on within the borders of a settlement;
- the creation of appropriate conditions for developing, on the territories of settlements, physical culture and mass-scale sports;
- the creation of adequate public recreation conditions for the residents of a settlement, and the organization of adequate equipment of popular public recreation sites;
- aid in establishing, in accordance with the Federal Law, of trusteeship and guardianship over those residents of a settlement who are in need of such trusteeship and guardianship;
- the organization of collection and removal of domestic waste and litter;
- the organization of the provision of all amenities and the planting of urban greenery on the territories of settlements, adequate use and protection of urban forest areas located within the borders of the population units of a settlement;
- the organization of street lighting and setting-up of signs with names of streets and numbers of buildings;
- the organization of funeral services and the maintenance of cemeteries;
- the organization and implementation of measures aimed at civil defense, the protection of population and territories of settlements from natural and man-made emergency situations;

- the organization and execution of measures of mobilization readiness of the municipal enterprises and institutions located on the territories of settlements;
- the implementation of measures aimed at safety of people at water objects, the protection of their life and health;
- the creation, development and protection of spa areas and health resorts of local importance on the territories of settlements.

From 1 January 2007 (the second phase of reforming), another five issues are to be delegated to settlements:

- the ownership, use and disposal of municipal property owned by settlements;
- the maintenance and construction of public motor roads, bridges and other transport engineering facilities within the borders of the population units of settlements, with the exception of public motor roads, bridges and other transport-related engineering structures of federal and regional importance;
- the provision of citizens with low income, who reside in a settlement and are in need of improving their housing conditions, with dwelling premises in accordance with housing legislation, the organization of construction and maintenance of municipal housing, and the creation of appropriate conditions for housing construction;
- the creation of appropriate conditions for providing the population with transportation services and the organization of public transportation services within the borders of settlements;
- the formation of a settlement's archival funds.

From 1 January 2008, the following territorial planning issue is to be delegated to settlements:

- the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of documentation prepared on the basis of these general plans of settlement for the planning of territories, the issuing of permits for construction and permits for objects to be put in operation, the approval of local urban construction normatives for the planning of settlements, the reservation and withdrawal, including by buying-out, of plots of land within the borders of settlement needed for municipal

use, and the execution of land control over the use of a settlement's lands.

In the Law it is stated directly that the formation, approval and execution of the budgets is not the prerogative of the bodies of local self-government of settlements. The revenues and expenditures of the settlements newly created in municipal raions are to be part of the budget of the municipal raion on whose territory those settlements are located. The tax revenues determined in the RF Budget Code as transferable to the budgets of newly created settlements are to be transferred to the budgets of those municipal raions on whose territory those settlements are located.

Krasnodar Krai

By Krai Law of 29 November 2005, No. 950-KZ, "*On determining the procedure for settling the issues of local importance in newly created settlements during the transition period*" (in the wording of Law of Krasnodar Krai as of 06.04.2006, No. 1006-KZ), the variant involving a step-by-step transition to endowing the bodies of local self-government of newly created settlements with the full range of powers during three years has been established. The Law regulates competence issues and introduces the budget-based principle for the financing of the issues of local importance transferred to settlements⁵³ and the right to use municipal property without compensation for purposes of dealing with these issues.

The decision-making in respect to those issues of local importance that have not been transferred to settlements is executed by the bodies of local self-government of municipal raions ("the principle of residuality" for raions). Our analysis of this Krai Law has led to the conclusion that municipal reform is sufficiently close to being fully implemented already at the first phase of reforming.

From 1 January 2006 (the first phase of reforming), 24 issues of local importance out of those on the federal list have been delegated to settlements, including the fundamental budgeting issues, as well as those relating to taxes, property, and the provision of utilities to the population (issues of local importance No. 1–4 in Law No. FZ-131), by which we can

⁵³ The budget principle was confirmed by the Law of Krasnodar Krai on the 2006 budget.

conclude that there do exist the administratively independent local budgets of newly created settlements in Krasnodar Krai.

From 1 January 2007 (the second phase of reforming), four more issues are to be delegated to settlements:

- the organization of library services to population (including the replenishment of library holdings) to be provided by settlements' libraries;
- the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of documentation prepared on the basis of these general plans of settlements for the planning of territories, the issuing of permits for construction and permits for objects to be put in operation, the approval of local urban construction normatives for the planning of settlements, the reservation and withdrawal, including by buying-out, of plots of land within the borders of settlement needed for municipal use, and the execution of land control over the use of a settlement's lands;
- the creation of appropriate conditions for developing local traditional folk arts and creativity, the participation in the protection, revival and development of folk artistic crafts in a settlement (this power is introduced by Law of Krasnodar Krai of 06.04.2006, No. 1006-KZ);
- the organization and implementation of measures aimed at children's and youth activities in a settlement (this power is also introduced by Law Krasnodar Krai of 06.04.2006, No. 1006-KZ).
- From 1 January 2008, the remaining issues listed in Article 14 of Law No. FZ-131 are to be delegated:
 - the provision of citizens with low income, who reside in a settlement and are in need of improving their housing conditions, with dwelling premises in accordance with housing legislation, the organization of construction and maintenance of municipal housing, and the creation of appropriate conditions for housing construction;
 - the organization and implementation of measures aimed at civil defense, the protection of the population and territories of settlements from natural and man-made emergency situations;

- the calculation of housing and utilities subsidies and the organization of the provision of these subsidies to citizens who have the right to such subsidies in accordance with housing legislation (this power is also introduced by Law of Krasnodar Krai of 06.04.2006, No. 1006-KZ).

In respect to financial sufficiency, the Law contains only one provision: when the draft budgets of municipal raions for the years 2006 and 2007 are formed and approved, the resources of the raion funds for financial support of settlements are to be distributed on the basis of the actual indices of revenues and expenditures during a reporting period, or on the basis of the indices of revenues and expenditures in the budgets of settlements forecasted for each planned period, with due regard to the lists of issues delegated to settlements.

The third group of regions: different volumes of powers are delegated there to different groups of newly created settlements

This section contains our analysis of the legislations of those RF subjects where it was decided to establish, by regional laws, different list of issues of local importance for certain newly created settlements or for certain groups of such settlements. The choice of this variant of reforming (variant 3) implies that the status of the tax base of each municipality is taken into consideration, as well as the availability of adequate personnel, organizational and material resources in each settlement or a group of settlements. With varying degrees of arbitrariness, this variant has been implemented by the following RF subjects:

1. Archangelsk Oblast.
2. Vladimir Oblast.
3. Kaliningrad Oblast.
4. Kamchatka Oblast.
5. Novgorod Oblast.
6. Tomsk Oblast.
7. Tula Oblast.
8. Cheliabinsk Oblast.
9. Yamal-Nenets Autonomous Okrug.

In addition, the first two regions in the third group (Archangelsk Oblast and Vladimir Oblast) have chosen a step-by-step three-year pe-

riod, when every year the jurisdiction of the new settlements is expanded, with the simultaneous reduction in the role played by municipal raions when addressing the problems existing at the settlement level.

Archangelsk Oblast

In Archangelsk Oblast two laws, with identical titles, *‘On introducing changes and amendments into the Oblast Law “On executing the state powers of Archangelsk Oblast in the sphere of legal regulation of the organizations and execution of local self-government”*’, were adopted. One of them, of 9 December 2005, No. 138-8-OZ, has been augmented by Chapter IV *“The procedure for settling the issues of local importance in the newly created municipal formations of Archangelsk Oblast during the transition period”*. The other law – of 9 December 2005, No. 138-8-OL, has been augmented by Chapter V *“The procedure for the development, adoption and implementation of the Oblast Law concerning the division of objects of municipal property between the municipal raions of Archangelsk Oblast and the urban and rural settlements located on their territories”*.

By the first Law, rural settlement “Solovetskoe” has been separated as a territory where, from 1 January 2006, all the issues of local importance listed in Article 14 of Law No. FZ-131 are to be dealt with independently.

For all the other newly created settlements, two phases of municipal reform are introduced – the year 2006 and the years 2007–08. Throughout the year 2006, they are to make decisions in respect to the majority of issues of local importance (or, more exactly, 23), except the following ones, which are to be delegated to the level of municipal raions:

- the organization, within the borders of settlements located on the territories of municipal raions in Archangelsk Oblast, of electric power, gas and water supply, drainage, and supply of fuel to the population;
- the organization and execution of measures of mobilization readiness of the municipal enterprises and institutions located on the territories of the settlements which are part of municipal raions in Archangelsk Oblast.

From January 2007, all the settlements will begin to deal with these issues of local importance, too.

In accordance with Part 9 of the first law, the representative bodies of municipal raions in Archangelsk Oblast are granted the right to adopt municipal normative – legal acts which will establish for the year 2006 the land tax and the personal property tax, except on the territory of rural settlement “Solovetskoe”.

All the other settlements in Archangelsk Oblast (with the exception of “Solovetskoe”) are grouped in the Law in the following way:

- the first group – all the urban settlements and some rural settlements of those nine municipal raions in the oblast, which independently execute all their budgeting powers (the formation, approval, execution and control of the budgets), with all the non-tax revenues and dotations envisaged in the RF Budget Code being transferred to their budgets;
- the second group – all the other rural settlement of the oblast, which are, in fact, financed by estimate, while the dotations from the Oblast Fund for financial support of settlements and those tax and non-tax revenues, which are, in accordance with the RF Budget Code, transferable to the budgets of rural settlements, are transferred to the budgets of those municipal raions in Archangelsk Oblast on whose territories these rural settlements are located.

Oblast Law No. 138-8-OZ contains the provision that the procedure, established thereby for the newly created municipal formations in Archangelsk Oblast to deal with their issues of local importance, should not be impediment for the bodies of local self-government of municipal formations to make agreements concerning the transfer of some of the powers granted to the bodies of local self-government. These agreements are to be signed by the heads of municipal formations and be subject to approval by representative bodies.

The second Law of Archangelsk Oblast of 9 December 2005, No. 139-8-OZ, contains detailed provisions⁵⁴ concerning the division of

⁵⁴ These provisions will be in operation until the approval, by the Government of the Russian Federation, of the procedure for the division of municipal property between municipal raions, settlements, and city okrugs envisaged in Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”.

objects of municipal property between the municipal raions of Archangelsk Oblast and settlements, including:

- the procedure for making the lists of objects of municipal property earmarked for the transfer into the municipal ownership of the settlements of Archangelsk Oblast;
- the procedure for developing oblast laws concerning the division of objects of municipal property between municipal raions and settlements, the following documents being attached to a draft oblast law:
 - the decision of the representative body of a municipal raion concerning its approval of the list of objects of municipal property;
 - the decision of the representative body of a related settlement concerning the coordination of the list of objects of municipal property;
 - the procedure for settling the disagreements arising between a municipal raion and a settlement in respect to the list of objects of municipal property, including the creation of a conciliation commission by the Head of the Administration of Archangelsk Oblast; in an event of a failure to achieve conciliation in respect to certain objects, the latter are to be taken off the list of objects of municipal property, while the draft oblast law concerning the division of property is to be submitted to the Archangelsk Oblast Assembly of Deputies by the Head of the Administration of Archangelsk Oblast.

Vladimir Oblast

Law of Vladimir Oblast of 23 November 2005, No. 168-OZ, “*On the procedure for settling the issues of local importance in newly created urban and rural settlements in Vladimir Oblast*” (in the wording as of 12.04.2006, No. 45-OZ) has the period of operation of 3 years. The Law regulates competence issues and established the “by-estimate” procedure for the financing of newly created settlements. By the amendments to this Law introduced in April 2006, it is determined that the division of municipal property between newly created settlements and those municipal raions on whose territories they are located is to be executed in accordance with the separately adopted Law of Vladimir Oblast, “On the pro-

cedure for the division of municipal property between the municipal formations of Vladimir Oblast”.

The specific feature of the main Law is that, firstly, municipal reform during the three-year period is to be implemented step-by-step, and secondly, the redistribution of issues of local importance between raions and settlements is handled differently for urban and rural settlements. The issues of local importance are consolidated to municipal raions on the basis of “the principle of residuality”.

For newly created urban settlements, the following step-by-step pattern for the transfer of issues of local importance is established:

- from 1 January 2006 – 16 issues, including the powers relating to the provision of utilities and the maintenance of roads and other infrastructure;
- from 1 January 2007 – two more issues, i.e. property management (4) and the provision of housing to citizens with low income and housing construction (6);
- from 1 January 2008 – five more issues, i.e. those determined in Item 7 (transport), Item 13 (culture), Item 14 (physical culture), Item 20 (general plans and land) and Item 27 (fitness and health resorts) of Article 14 of Law No. FZ-131.

For newly created rural settlements, the step-by-step pattern for the transfer of issues of local importance is as follows:

- from 1 January 2006 – 12 issues, including the fundamental issue of the territorial infrastructure’s upkeep;
- from 1 January 2007 – one more issue is consolidated, that of the provision of housing to citizens with low income and housing construction (6);
- from 1 January 2008 – six more issues determined in Item 3 (property management), Item 7 (transport), Item 13 (culture), Item 14 (physical culture), Item 20 (general plans и land) and Item 27 (fitness and health resorts) of Article 14 of Law No. FZ-131.

During the three years of the transition period, no formation, approval or execution of budgets by the bodies of local self-government of newly created urban and rural settlements is allowed. The system of financing for settlements and municipal raions is similar to that introduced in Nov-

gorod Oblast: all the tax and non-tax revenues, the monies generated by the self-assessment taxation of citizens, and the dotations from the Oblast Fund for financial support are transferred to the raion budget.

Kaliningrad Oblast

Law of 22 November 2005, No. 678, “*On the procedure for settling, in the year 2006, the issues of local importance in the newly created settlements in the territory of Kaliningrad Oblast*” was adopted for the period of 1 year. The Law regulates only the issues of the division of the spheres of competence, without touching upon the procedure for the financial backing of powers, as well as the issues of property division and agreements.

The specific feature of this Law is that it is applied to three municipal raions, establishing different models for the division of powers in the group consisting of two municipal raions (Gvardeiskii and Pravdinskii) and in Zelenogradskii raion.

1. In Gvardeiskii and Pravdinskii raions, one model of the division of powers is applied in all the settlements. This model implies the transfer to raion authorities of 8 issues among those listed in Article 14 of Law No. FZ-131, namely Item 4 (*HUS*), Item 5 (*roads*), Item 7 (*transport*), Item 20 (*territory planning and land development*), Item 23 (*civil defense*), Item 24 (*rescue*), Item 25 (*mobilization*), 26 (*safety on water*). The other issues of local importance from Article 14, as well as the relating powers determined in Article 17 of Law No. FZ-131, are consolidated to the urban and rural settlements within these two raions. The choice of “the principle of residuality” for settlements implies that to the settlements of these two raions all the “resource-generating” powers are delegated, including the budgeting⁵⁵ and tax powers and property management.

2. In Zelenogradskii raion, different models of the division of powers are applied to two groups of settlements. The model applied to the group consisting of three settlements – “Krasnotorovskoe rural settlement”, “Pereslavskoe rural settlement” and “rural settlement Kurshskaya Kosa” is identical to that applied to Gvardeiskii and Pravdinskii raions. At the same time, for the other group of two settlements – “Zelenogradskii ur-

⁵⁵ The transfer of the budgeting powers to the settlement level was confirmed by the Law of Kaliningrad Oblast on the 2006 budget.

ban settlement” and “Kovrovskoe rural settlement”, in the same Zelenogradskii raion another model have been chosen, whereby all the issues of local importance listed in Article 14 are to be dealt with by raion authorities, while the powers determined in Article 17 are to be executed by settlements.

3. The procedure for the financing of settlements in Kaliningrad Oblast has not been determined precisely because, on the one hand, the budgeting powers (the formation, approval and execution of the budget of a settlement, and the control over the execution of that budget) are consolidated to the majority of newly created settlements (except Zelenogradskii urban settlement and Kovrovskoe rural settlement); on the other, the Law contains a provision to the effect that the revenues and expenditures of the settlements located on the territory of a given raion are to constitute part of the budget of that municipal raion. Considering the existence, in the Law of Kaliningrad Oblast “On the oblast budget for the year 2006” of 19 December 2005, No 705, of the norms stipulating that the monies from the regional fund for financial support to settlements are to be transferred directly to the budgets of urban and rural settlements, there exist some grounds for the conclusion that the majority of newly created settlements do have their local budgets.

Kamchatka Oblast

Law of 17 November 2005, No. 405, “*On the procedure for settling the issues of local importance in the newly created settlements in Kamchatka Oblast*” (in the wording as of 14.12.2005, No. 422, and as of 30.12.2005, No. 434) was adopted for the period of 1 year. The Law regulates competence issues and the procedure for the financing of newly created settlements, as well as envisages the possibility of agreements to be made between the local administrations of municipal raions and settlements. There is no mention of property division.

Among the specific features of this Law we can point out the introduction of different models of the division of powers for two groups of municipal raions.

The first group consists of Aleutskii, Bystrinskii, Yelizovskii and Ust'-Kamchatskii municipal raions. With due regard for the amendments to this Law introduced in December 2005, to the newly created settle-

ments of these raions the majority of issues of local importance having been assigned (a total of 21 issues), including the powers for property management. A smaller number of the issues of local importance listed in Article 14 of Law No. FZ-131 are consolidated to municipal raions. In particular, the raion-level issues in this group are as follows:

- the establishment, changes to and the abolition of local taxes and levies in settlements;
- the organization, within the borders of settlement, of electric power, gas and water supply, drainage, and supply of fuel to the population;
- the approval of general plans for the development of a settlement, the rules for the use of lands and the construction thereon, the approval of the documentation prepared on the basis of these general plans of settlement for the planning of territories, the issuing of permits for construction and permits for objects to be put in operation, the approval of local urban construction normatives for the planning of settlements, the reservation and withdrawal, including by buying-out, of the plots of land within the borders of settlement needed for municipal use, and the execution of land control over the use of a settlement's lands;
- the organization and execution of measures of mobilization readiness of the municipal enterprises and institutions located on the territories of settlements;
- the creation, development and protection of spa areas and health resorts of local importance on the territories of settlements.

To the second group of raions belong Milkovskii, Sobolevskii and Ust'-Bolsheretskii municipal raions. To the raion authorities there, all the settlements' issues of local importance have been delegated, except the ownership, use and disposal of the municipal property of the aforesaid settlements.

In contrast to Kaliningrad Oblast, in the Law of Kamchatka Oblast a detailed procedure for the financing of newly created settlements has been established. The estimate of the revenues and expenditures of each of the newly created settlements is to be approved by the representative body of the municipal raion on whose territory those settlements are located, issued as an attachment to the legal act on the budget of the mu-

nicipal raion for the year 2006. The procedure for the development, execution and control over the execution of the estimate of revenues and expenditures of newly created settlements, as well as the procedure for submitting reports concerning the estimate's execution, are to be determined by the Department for financial and budgeting policy of the Administration of Kamchatka Oblast. The funds allocated to the issues of local importance faced by newly created settlements are to be recorded as a separate entry in the budget of a municipal raion.

The tax revenues transferable to the budgets of newly created settlements, as well as the dotations from the Oblast Fund for financial support of settlements, are transferred to the budget of the municipal raion on whose territory those settlements are located. The dotations from the Oblast Fund for financial support of municipal raions (or city okrugs) of Kamchatka Oblast, which is formed as part of the Oblast's budget in the amount of 100 % of the total size of the aforesaid resources, are to be distributed on the basis of the actual indices of the revenues and expenditures in the budgets of municipal raions (or city okrugs) of Kamchatka Oblast.

The specific feature of this Law is that it envisages two variants of the execution of powers by the local administrations of newly created settlements:

- for purposes of economy of financial resources, the heads of newly created settlements have the right not to create the local administrations of settlements, making agreements instead with the heads of municipal raions concerning the execution of their powers for dealing with issues of local importance through the territorial administrative bodies of municipal raions;
- the heads of municipal raions have the right, on the basis of agreements with the heads of newly created settlements, to execute their powers in respect to the issues of local importance assigned by the Law to settlements through the administrations of those settlements, with the simultaneous abolition of the territorial administrative bodies of municipal raions.

Novgorod Oblast

Law of 7 December 2005, No. 574-OZ, “*On determining the procedure for settling the issues of local importance in newly created settlements during the transition period*” (in the wording of the Law of Novgorod Oblast of 07.04.2006, No. 655-OZ)⁵⁶, was adopted for the period of 2 years; however, those article whereby the redistribution of the issues of local importance is determined, are in operation for only 1 year – until 31 December 2006. The Law regulates competence issues and the procedure for forming the budgets of municipal raions, establishing the “by-estimate” principle for the financing of newly created settlements and their right to use property without compensation. The issues relating to the division of municipal property and agreements are not regulated by this Law.

The Law of Novgorod Oblast differs from the other regional laws by its juridical complexities, since it contains many reference (or blanket) norms, and the complexity of the legislative regulation of the implementation of municipal reform. The Law declares a step-by-step approach to determining the list of issues of local importance assigned to the settlements created on the oblast’s territory Oblast, but does not establish any method for the redistribution of powers in 2007–08⁵⁷.

The articles, which are to be in operation only during the year 2006, establish the lists of issues of local importance for newly created rural and urban settlements. These lists are attached as separate annexes to the Law for each of the 21 raions in the Oblast. Each of these annexes contains between 8 and 10 issues. The annexes are nearly identical in their content, some issues of local importance having been reworded as compared to the wording in Article 14 of Law No. FZ-131. Thus, for example, to the settlements located on the territory of Valdaiskii municipal raion (Annex 3) the following issues are consolidated:

⁵⁶ The former title of this Law was “On establishing the transition period and the procedure for resolving the issues of local importance faced by newly created settlements in 2006”.

⁵⁷ From the presentation of report by the Oblast Vice-Governor “On the implementation of the Federal Law “On general principles of the organization of local self-government in the Russian Federation” in the territory of Novgorod Oblast” it follows that approximately 30% of issues of local importance were delegated to newly created settlements, while in 2007 – 70% will be delegated, and in 2008 – 100%.

- the provision of primary measures of fire safety within the borders of the population units of settlements;
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services;
- the creation of adequate public recreation conditions for the residents of a settlement, and the organization of adequate equipment of popular public recreation sites;
- the formation of a settlement's archival funds;
- the organization of the collection and removal of domestic waste and litter;
- the organization of the provision of all amenities and the planting of urban greenery in the territories of settlements, adequate use and protection of urban forest areas located within the borders of the population units of a settlement;
- the organization of street lighting and setting-up of signs with names of streets and numbers of buildings;
- the organization of funeral services and the maintenance of cemeteries;
- the organization of the supply of fuel to the population.

The bodies of local self-government of each municipal raion are endowed with the right to make decisions concerning those issues of local importance listed in Article 14 which are not mentioned in the respective annexes to the Law ("the principle of residuality" for municipal raions), as well as to execute the powers listed in Article 17 of Law No. FZ-131, for purposes of dealing with the issues of local importance consolidated to them. The Novgorod Law also allows the bodies of local self-government of municipal raions to make decisions in respect to other issues existing in newly created settlements, which have not been assigned to the area of competence of the bodies of local self-government of other municipal formations, or to the bodies of state authority, and which have not been withdrawn from their area of competence by federal or oblast laws. These issues can be dealt with only when municipal raions possess their own material and financial resources (except subventions and dotations granted from the federal and oblast budgets).

Those articles of the Law that have been adopted for two years (2006–07), contain the following provisions:

- When executing their powers in respect to the issues of local importance faced by newly created settlements, the bodies of local self-government may, within the limits of their area of competence, issue normative – legal acts, the execution of which is mandatory.
- To the budget of the municipal raion on whose territory the newly created settlements are located, the following monies are to be transferred:
 - the revenues from the taxes due to be paid on the territories of those settlements and transferable to their budgets⁵⁸;
 - non-tax revenues envisaged in the RF Budget Code (Article 62);
 - the monies generated by the self-assessment taxation of the citizens residing in a settlement, in the Law it being specified that these resources are to be allocated to the implementation of measures approved by decision of a referendum (or citizens’ meeting), without any mention as to the municipal level at which such a referendum is to be held.
- The municipal raions on whose territory newly created settlements are located are granted the right to receive dotations from the Oblast Fund for financial support of settlements, in the procedure established in Article 137 of the Budget Code of the Russian Federation, and in accordance with the methodology approved by Oblast Law of 09.08.2005 No. 532-OZ “On the interbudgetary relations in Novgorod Oblast”.
- The estimate of revenues and expenditures of a newly created settlement is to be approved by the representative body of a municipal raion in the form of an annex to the legal act on the budget of the municipal raion for the next financial year. The procedure for the

⁵⁸ In particular, the deductions from the local taxes introduced by the representative body of a given municipal raion are to be calculated in accordance with the following normatives: the land tax – 100%; the personal property tax – 100%; from the federal taxes and levies, and the taxes established as part of special tax regimes, as stipulated in Item 2 of Article 61 of the Budget Code of the Russian Federation, – in accordance with the following normative rates: the personal income tax – 10%; the single agricultural tax – 30%.

preparation, execution, and control over the execution of the estimates of revenues and expenditures of newly created settlements, as well as the procedure for submitting reports on the execution of the aforesaid estimates, are to be determined by the body responsible for organizing the execution of the budget of a municipal raion.

Tomsk Oblast

Law of 5 December 2005, No. 216-OZ, “*On the procedure for settling the issues of local importance in the newly created settlements in Tomsk Oblast during the transition period of reform of local self-government*” (the wording as of 02.02.2006, No. 7-OZ) was adopted for the period of 1 year. The Law regulates competence issues, the procedure for the financing of newly created settlements, and some issues of municipal property division. There is no mention in the Law of the right to make agreements. When dividing the areas of competence, the Law establishes “the principle of residuality” for settlements, whereas to municipal raions certain issues among those listed in Article 14 of Law No. FZ-131 are assigned.

Our analysis of the Law’s provisions has led to the conclusion that the basic issues of local importance listed in Article 14 are consolidated to newly created settlements, including the main “resource-generating” powers. A small number of the issues in Article 14 are delegated to municipal raions.

The Law’s specific feature is that each issue of local importance, when transferred to the raion level, is delegated to a specific group of raions within the oblast, or to a certain raion within the group. Sometimes special timelines are established for finding an appropriate solution to a specific issue. Thus, for one of the groups of raions⁵⁹, a half-year period is determined (from 1 January 2006 until 1 June 2006), during which the raions are to make appropriate decisions concerning the local issue of the organization, within the borders of settlements, of electric power, gas and water supply, drainage, and supply of fuel to the population. Considering the existence of “the principle of residuality” in the division of powers in respect to settlements, it should be expected that in the remaining period

⁵⁹ In particular, Asinovskii, Verkhneketskii, Zyrianskii, Kozhevnikovskii, Krivosheinskii, Tegul’detskii, Tomskii, and Chainskii raions.

of reform this issue will be consolidated to the newly created settlements located on the territories of the municipal raions belonging to this group.

The provisions in the Law concerning the mechanism of financing cannot be interpreted in a single way. On the one hand, in Article 3 of the Law it is stated directly that the issues delegated to settlements are to be dealt with at the expense of their local budgets, their municipal property, as well as property to be transferred to them later for the execution of related powers. Similarly, the issues delegated to the raion level are to be dealt with at the expense of the local budget of a municipal raion, as well as its municipal property.

On the other hand, the Law contains provisions concerning the procedure for financing by estimate, which, however, is to be applied only in an event of absence of administratively independent budgets of newly created settlements. In this latter case the revenues and expenditures of those settlements are to be envisaged in the budget of a municipal raion in the form of an estimate of revenues and expenditures for each newly created settlement. The estimate of revenues and expenditures of a newly created settlement is to be approved by the representative body of a municipal raion, in the form of an annex attached to the legal act on the budget of that municipal raion for the next financial year. The resources allocated to the issues of local importance of newly created settlements are to be reflected in the budget of a municipal raion as a separate entry. Considering the existence, in the Law of Tomsk Oblast, of some provisions concerning the 2006 budget, it can be assumed that some of the newly created settlements do have their own local budgets.

In contrast to other regional laws addressing these issues, the Law of Tomsk Oblast in its current wording (the latest amendments were introduced in February 2006 year) contains provisions concerning the obligation of the bodies of local self-government of municipal raions to transfer without compensation, and of the bodies of local self-government of settlements – to receive property assigned to the issues of local importance specified in the Law. It is noteworthy that the settlements' right of municipal ownership of property arises from the moment of property deeds

being signed by the bodies of local self-government of municipal raions and the bodies of local self-government settlements⁶⁰.

Tula Oblast

Law of 29 November 2005, No. 650-ZTO, “*On the procedure for settling, in the territory of Tula Oblast, of issues of local importance in the newly created settlements during the transition period*” was adopted for the period of 3 years. The Law regulates competence issues, the procedure for the financing of settlements and municipal raions, and the procedures for forming the property of newly created settlements. Similarly to Tomsk Oblast, “the principle of residuality” has been chosen for settlements when dividing the areas of competence of municipal formations, while the issues specially assigned to municipal raions are regarded as separate issues of local importance of settlements being transferred to raions.

The specific feature of Tula legislation consists in dividing all municipal raions into four groups, and for each of these groups, different lists of issues among those listed in Article 14 of Law No. FZ-131 are determined. Some of the issues are encountered in their “regional wording”. Thus, no powers are envisaged in respect to the creation of appropriate conditions for the organization of leisure, while the issue itself is worded differently, as “the creation of appropriate conditions for providing the residents of a settlement with the services of cultural organizations”. Or, for example, for one group of municipal raions, among the powers relating to utilities services, only the supply of heating and gas is mentioned, while for another group – only the supply of electric power and gas.

No budgets of newly created settlements are envisaged, they are to be financed by estimate.

During the formation and approval of the draft budgets of municipal raions for the years 2006, 2007 and 2008, the dotations from the raion funds for financial support of settlements are to be distributed on the basis of the actual indices of revenues and expenditures recorded in the

⁶⁰ These provisions are incompatible with the new wording of Federal Law No. 122-FZ concerning the necessity for a RF subject’s law to be adopted, whereby the lists of property being transferred between settlements and municipal raions are to be approved.

budgets of settlements in a reporting period, as well as the forecasted revenues and expenditures.

Among the specific features of Tula Oblast, we can point out the procedure for the interaction between the bodies of local self-government of settlements and raions, established by this Law, which is as follows:

- The bodies of local self-government of newly created settlements may participate in the preparation, approval, execution and control over the execution of decisions concerning those issues of local importance which are of interest to them, and which are executed by the bodies of local self-government of municipal raions, in the following procedure:
 - they can put forth their proposals concerning those issues;
 - they can participate, without the right to vote, in the meetings held by the bodies of local self-government of municipal raions.
- The bodies of local self-government of municipal raions must ensure the participation of the bodies of local self-government of newly created settlements in the approval of the municipal legal acts concerning those issues of local importance, the execution of which has been delegated to the bodies of local self-government of municipal raions, by notifying them as to the date of such meetings, by discussing the proposals concerning those issues of local importance, and by making decisions with due regard to their opinion.

The procedures for the formation of the property of newly created settlements are described in the Law in detail as follows:

- The movable and immovable property being used by the newly created settlements in dealing with issues of local importance during the transition period is to be transferred into their ownership from 1 January 2006. Until the registration of the ownership right to the aforesaid property, the bodies of local self-government of urban and rural settlements have the right to use it without compensation.
- The list of objects of municipal property transferable into the ownership of newly created settlements is subject to approval by the representative body of a municipal raion. The list of objects of municipal property transferable into the ownership of newly created settlements located on the territory of a municipal raion is to be formed by the

bodies of local self-government of the municipal raion on the basis of proposals put forth by the bodies of local self-government of settlements and approved by the representative bodies of settlements.

In an event of a dispute arising in respect to the content of the list of objects of municipal property transferable into the ownership of newly created settlements located on the territory of a municipal raion, by decision of the head of the municipal raion and on a request submitted by the head of a settlement located on the territory of that municipal raion, a conciliation commission is to be created.

According to available information, the practice of agreements has become quite widespread in Tula Oblast.

Cheliabinsk Oblast

Law of Cheliabinsk Oblast of 22 December 2005, No. 439-ZO, “*On the procedure for settling the issues of local importance in newly created settlements during the transition period*” was adopted for the period of 1 year. The Law regulates competence issues and the financial backing of powers only at the raion level of authority. Within the framework of the redistribution of issues of local importance, for settlements “the principle of residuality” is established.

In contrast to other regional laws, the Cheliabinsk Law introduces definitions of some terms:

- a newly created settlement is an urban or rural settlement created in accordance with Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”;
- the issues of local importance faced by newly created settlements – issues relating to the direct provision for the life of the population of a newly created settlement, as envisaged by the present Law, which are to be dealt with, in accordance with the Constitution of the Russian Federation, federal laws and the present Law, independently by the population and (or) the bodies of local self-government;
- the transition period is the period during which the present Law is to be in force.

In terms of competence redistribution, a separate group is represented by Kartalinskii and Katav – Ivanovskii municipal raions, as well as by

Sosnovskii municipal raion in its relation to rural settlement Novyi Kremenkul. These raions have been delegated a longer list of issues of local importance, as compared to other municipal raions in the oblast. In particular, in addition to the list of 15 issues consolidated to all the municipal raions on whose territory newly created settlements are located, the following powers have been transferred to them:

- the approval of the budgets of settlements and the control over their execution;
- the establishment, changes to and the abolition of local taxes and levies in settlements;
- the ownership, use and disposal of municipal property owned by settlements.

As for those 15 issues of local importance that have been consolidated to those raions where new settlements have appeared, they incorporate only a part of the budgeting powers – the formation and execution of the budget of a settlement. As a consequence, to the newly created settlements located in the territories of the raions outside the specified group, the approval of local budgets and the control over its execution, as well as the tax powers and the powers for property management are consolidated.

Different procedures for the financial backing for issues of local importance have been established in the Law for different groups of raions. Thus, to the budgets of Ashinskii, Bredinskii, Yemanzhelinskii, Kaslinskii, Kizil'skii, Korkinskii, Plastovskii, Satkinskii, Troitskii and Chesmenskii municipal raions, as well as Sosnovskii municipal raion in its relation to Tominskii rural settlement, the tax revenues are transferred (due to be paid on the territories of the newly created settlements and transferable to their budgets), which are generated by the following federal taxes and levies:

- the personal income tax – at the normative rate of 10 %;
- the single agricultural tax – at the normative rate of 30 %.

To the budgets of Kartalinskii and Katav-Ivanovskii municipal raions, as well as Sosnovskii municipal raion in its relation to rural settlement Novyi Kremenkul, the tax and non-tax revenues, due to be paid on the territories of newly created settlements and transferable to their budgets, are transferred. Besides, the aforesaid raions have the right to

receive dotations from the Oblast Fund for financial support of settlements, in accordance with the Law of Cheliabinsk Oblast “On interbudgetary relations” and the Law of Cheliabinsk Oblast “On the oblast budget for the year 2006”.

Yamal-Nenets Autonomous Okrug

Law of 6 December 2005, No. 87-ZAO, “*On the procedure for settling the issues of local importance in the newly created settlements in the Yamal-Nenets Autonomous Okrug in the year 2006*” was adopted for the period of 1 year. The Law regulates competence issues and the procedure for the financing of settlements, and determines the specific features of agreements between settlements and municipal raions concerning the transfer of a part of the powers granted to their administrative bodies.

The specific feature of this Law is that all the newly created settlements are divided into two groups. The settlement in one group (*Aksarkovskoe, Beloyarskoe, settlement Zapoliarnyi, village Katravozh, Mys-Kamenskoe, town Nadym, village Novyi Port, village Panaevsk, settlement Pravokhettinskii, settlement Priozhoryni, village Salemal, village Seyakha, Khar-saimskoe, Yar-Salinskoe*) can make decisions in respect to all the issues of local importance on the federal list. The bodies of local self-government of these settlements are granted the right, by this Law, to make agreements with the bodies of local self-government of their municipal raions concerning the transfer to the latter of some of their powers for dealing with the issues of local importance assigned to settlements. For this group of settlements, the treasury execution of their budgets by the bodies of local self-government of the municipal raions, on whose territory those settlements are located, is envisaged.

The other group of settlements consists of all the other newly created settlements in the okrug. They have no right to make decisions in respect to the issues of local importance listed in Article 14 of Law No. FZ-131. These issues are to be dealt with by the municipal raions on whose territories those settlements are located. At the same time, the bodies of local self-government of municipal raions may, in accordance with this Law, make agreements with the bodies of local self-government of newly created settlements concerning the transfer to the latter of some of their

powers to deal with the issues of local importance assigned to settlements and listed in Article 14 of Law No. FZ-131.

The revenues and expenditures of each settlement in the second groups are part of the budget of its municipal raion. The deductions from the federal and regional taxes и levies, transferable to the budgets of settlements in accordance with legislation of the Autonomous Okrug, are transferred to the budget of a municipal raion. The bodies of local self-government of municipal raions submit reports to the administration of the Autonomous Okrug on revenues and expenditures for each newly created settlement in the form, in the procedure and within the timelines determined by the Autonomous Okrug's administration.

On 25 May 2006, in **Nadym (Yamal-Nenets Autonomous Okrug)** a planned meeting of the City Assembly of Deputies was held. The deputies approved the agreement concerning the transfer of some powers for dealing with issues of local importance from the local self-government bodies of the municipal formation "the town of Nadym" to the local self-government bodies of Nadym raion. Among the transferred powers there were those relating to the creation of appropriate conditions for developing physical culture and mass-scale sports on that territory, the organization of library services to the population, the creation of appropriate conditions for the organization of leisure, and the creation of appropriate conditions for traditional folk arts and creativity. The period of effect of this agreement is one year (2006)⁶¹.

The fourth group of regions: all the issues of local importance assigned to newly created settlements are dealt with at the level of municipal raions.

To this group of regions belong those subjects of the Russian Federation which, by their laws, have delegated the decision-making in respect to all the issues of local importance listed in Article 14 of Law No. FZ-131 to the bodies of local self-government of the municipal raions on whose territory newly created settlements are located. With a varying degree of arbitrariness, within this group the following three subjects of the Russian Federation can be placed:

⁶¹ <http://rels.obninsk.com/rels/lg/lg-fs.asp>.

1. Magadan Oblast.
2. Sakhalin Oblast.
3. Yaroslavl Oblast.

Magadan Oblast

Law of 24 November 2005, No. 625-OZ, “*On the procedure for settling the issues of local importance by newly created settlements in Magadan Oblast during the transition period*” was adopted for the period of 3 years; however, it envisages the following scenario of a step-by-step transition to full-scale implementation of municipal reform:

From 1 January 2006 until 1 January 2008, the issues of local importance assigned to newly created settlements are to be dealt with by the bodies of local self-government of municipal raions. During this period, the bodies of local self-government of municipal raions provide the organizational and material-technical backing for the activity of the bodies of local self-government and the elective officials in the local self-government of the newly created settlements located on the territories of their municipal raions. During the second year of that period, or, more exactly, from 1 January 2007 until 31 December 2007, the Law allows the bodies of local self-government of newly created settlements to execute their powers in respect to the following three issues of local importance:

- the provision of primary measures of fire safety within the borders of the population units of settlements;
- the creation of appropriate conditions for providing the residents of a settlement with communication services, public catering, trade outlets and other consumer services;
- the creation, development and protection of spa areas and health resorts of local importance on the territories of settlements.

From 1 January 2008, the bodies of local self-government of newly created settlements have the right to begin the full-scale execution of their powers for dealing with the issues of local importance listed in Article 14 of the Federal Law “On general principles of the organization of local self-government in the Russian Federation”.

The estimates of revenues and expenditures of each of the newly created settlements on the territory of a given municipal raion are envisaged

as part of that raion's budgets for the years 2006–2007. The procedure for developing, approving and executing the estimates of revenues and expenditures of newly created settlements are to be determined independently by the bodies of local self-government of each municipal raion. The dotations from the Oblast Fund for financial support of settlements are to be transferred to the budgets of those municipal raions on whose territory the newly created settlements are located, in the procedure determined by federal and oblast legislation.

The Magadan Law contains recommendations to the bodies of local self-government of municipal raions that they should design a set of measures aimed at forming the economic and financial base and at providing qualified municipal staff to the bodies of newly created settlements, in order to create appropriate conditions for a gradual expansion, during the transition period, of the powers of newly created settlements to deal independently with their issues of local importance.

Besides, the Law recommends to the bodies of local self-government of municipal raions and newly created settlements, for purposes of creating appropriate conditions (or guarantees) for the life of the population, to make agreements, in the established procedure and before 1 October 2007, concerning the transfer of a part of their powers for dealing with the issues of local importance.

Sakhalin Oblast

Law of Sakhalin Oblast of 14 December 2005, No. 89-ZO, "*On settling the issues of local importance in the newly created settlements*" was adopted for the period of 1 year. The Law regulates competence issues and the revenue sources of municipal raions.

In Sakhalin Oblast, which has chosen the way of creating city okrugs on the basis of rural raions, only 3 urban and 3 rural settlements appeared in two of the Oblast's raions – Nevel'skii and Uglegorskii. All the issues of local importance in the territories of these settlements have been delegated to municipal raions. Only the following powers have been consolidated to the bodies of local self-government of these settlements:

- to adopt the charter of a municipal formation and to change and amend in appropriately, and to issue municipal legal acts, with the

exception of municipal legal acts on local budget for the next financial year;

- to establish the official symbols of a municipal formation.

The tax revenues transferable, in accordance with the RF Budget Code, to the budgets of newly created settlements, are to be transferred to the budgets of the municipal raions on whose territory the newly created settlements are located. The dotations from the oblast compensation fund for the execution of the powers relating to the equalization of the budget sufficiency levels of settlements are to be transferred to the budgets of municipal raions in the procedure envisaged in Article 137 of the RF Budget Code.

Yaroslavl Oblast

The period of operation of Law of Yaroslavl Oblast of 28 December 2005, No. 90-Z, *“On the procedure for settling the issues of local importance in the newly created settlements in Yaroslavl Oblast during the transition period”* has not been determined.

The Law differs from all the other regional laws establishing the procedure for dealing with issues of local importance in that it introduces, in addition to the transfer of nearly all the powers to the raion level, the organizational mechanisms for a step-by-step implementation of federal legislation throughout the year 2006, as each municipal formation becomes ready for it. To the bodies of local self-government of settlements, for the period of year 2006, the powers to form and approve the local budgets for 2007 year are left, as well as the right to establish, change and abolish local taxes and levies in settlements.

For purposes of determining the readiness of the bodies of local self-government of newly created settlements in Yaroslavl Oblast to deal with the settlements' issues of local importance established by federal legislation, the Commission for reforming local self-government under the Administration of Yaroslavl Oblast is to be created. The procedure for the Commission's functioning, as well as its composition, are to be approved by decree of the Governor of Yaroslavl Oblast. The bodies of local self-government of newly created settlements should submit to the Commission documents and materials in confirmation of the existence, in each of the newly created settlements of Yaroslavl Oblast, of the conditions nec-

essary for the execution of local self-government. On the basis of these documents and materials, the Commission will then issue its recommendations (or resolution). Based on these recommendations (or resolution) of the Commission, the Administration of Yaroslavl Oblast will adopt a decree concerning the decision-making in respect to the issues of local importance faced by settlements.

Until the date wherefrom the bodies of local self-government of newly created settlements are to execute their powers in respect to the issues of local importance on the federal list, these issues are to be dealt with by the bodies of local self-government of those municipal raions in Yaroslavl Oblast on whose territory those settlements are located. In this connection:

- legal regulation of the issues of local importance faced by settlements is executed by the bodies of local self-government of the municipal raions on whose territory those settlements are located, with the exception of the legal regulation of issues relating to the organization of the activity of the bodies of local self-government and their officials in the newly created settlements;
- the organizational and material-technical backing of the activity of the municipal councils of the first convocation and the heads of the newly created settlements in Yaroslavl Oblast until 1 January 2007 is to be executed by the bodies of local self-government of the municipal raions on whose territory those settlements are located;
- the revenues and expenditures of settlements located on the territory of each municipal raion are envisaged as part of the budget of that municipal raion;
- the tax revenues transferable to the budgets of settlements in accordance with Article 61 of the Budget Code of the Russian Federation are to be transferred to the budgets of the municipal raions on whose territory those settlements are located;
- the dotations from the regional fund for financial support of settlements are to be transferred to the budgets of the municipal raions on whose territory those settlements are located, in the procedure established by prevailing legislation.

From 1 January 2007, the decision-making in respect to the issues of local importance faced by the newly created settlements in Yaroslavl Oblast is to be executed by the bodies of local self-government of the aforesaid settlements in accordance with prevailing federal legislation. In this connection, the Law envisages that the bodies of local self-government of the settlements of Yaroslavl Oblast will be executing legal regulation of the issues of local importance, and will independently form, approve, execute and control the execution of their local budgets. However, presently the provisions of the Law *“On the procedure for settling the issues of local importance in the newly created settlements in Yaroslavl Oblast during the transition period”* are being revised. In particular, on 29 August 2006 the Oblast Commission for reforming local self-government adopted the decision concerning the treasury execution, in the year 2007 in Yaroslavl Oblast, of the budgets of settlements by the administrations of municipal raions. In September 2006 it is planned for the Oblast Duma to consider appropriate amendments to be made to the Oblast Law⁶².

⁶²www.regnum.ru/news/696242.html.

Chapter 4. The Experience of Pilot Regions in Implementing Municipal Reform

4.1. Introduction

This chapter presents our analysis of the experience of municipal reform being implemented in three RF subjects – Novosibirsk Oblast, Stavropol Krai and Tver Oblast. The analysis addresses the period throughout the year 2005 and early 2006. The inclusion into the analysis of the first two regions – Novosibirsk Oblast and Stavropol Krai – hardly requires any additional explanations. These are the pilot regions for the implementation of municipal reform, where reforming started one year earlier than it had initially been envisaged in Law No. 131-FZ – that is, from 1 January 2005. Therefore, the experience accumulated there is most interesting from the point of view of a nation-wide estimation both of the problems faced by municipal reform and of the prospects for its further development. However, the analysis of the ways the reforming has been going on in those regions has demonstrated that the concept of transformations, as it is envisaged in Law No. 131-FZ, as well as in the amendments made to the RF Tax and Budget Codes, has not been realized in these regions to its full potential. The least reformed there has been the sphere of financial relations. Therefore it became obvious that the study must involve also some other regions, where the most reformed sphere has been that of interbudgetary relations.

One of such regions is Tver Oblast, where in 2005 an attempt was made to implement new mechanisms of financial equalization, and to apply these mechanisms to the levels of municipal raions and city okrugs. Thus, the inclusion of this region into our analysis has made it possible, on the one hand, to compare the rates and directions of local self-government reforming in the pilot regions and those region where the transformations are going on at an average rate, as compared to the whole country. On the other, we can take a more in-depth view (than in the pilot regions) of the specific features and the consequences of reform in the system of financial relations existing between regions and municipalities.

4.2. Normative-legal Base of Municipal Reform in Pilot Regions

4.2.1. Novosibirsk Oblast

Prior to the onset of municipal reform in 2003, in Novosibirsk Oblast there had existed the settlement-type model of the territorial organization of local self-government, consolidated by Oblast Law of 11 June 1997, No. 65-OZ, “On local self-government in Novosibirsk Oblast”. By Item 1 of Article 5 of this Law it was established that “local self-government is to be executed throughout the whole territory of Novosibirsk Oblast within the existing borders of its administrative-territorial structure: in the city of Novosibirsk, in the towns and cities of oblast importance, in the towns of raion importance, in settlement councils, in village councils, in villages and settlements”. In accordance with that Law, in the oblast there existed 460 municipal formations, including 7 towns and cities of oblast importance, 428 village councils, 7 towns of raion importance, and 18 workers’ settlements.

At the level of the Oblast’s 30 administrative raions, in accordance with the Oblast Charter, there functioned the territorial (raions’) representative bodies of state authority – the territorial councils of deputies and the territorial executive bodies of state authority of raions – the territorial administrations⁶³.

The preparation to the implementation of Law No. 131-FZ in the Oblast began in early 2004, with the creation of a task force under the chairmanship of the Head of the Oblast Administration and the Deputy Chairman of the Novosibirsk Oblast Council of Deputies⁶⁴. The main goal in the creation of this task force was to organize the activity aimed at bringing regional legislation in conformity with federal legislation. In view of the decision as to the enactment of Law No. 131-FZ from 1 Janu-

⁶³ Before 2002, the territorial bodies of state authority also existed in the Oblast’s cities and towns of oblast importance. These bodies existing at the level of cities and towns of oblast importance were abolished in accordance with Law of Novosibirsk Oblast of 2 December 2002, No. 70-OZ, “On introducing changes into the Charter of Novosibirsk Oblast”.

⁶⁴ Decree of the Novosibirsk Oblast Council of Deputies of the third convocation, of 29 January 2004 year, ‘On the creation of a task force for implementing in Novosibirsk Oblast the Federal Law “On general principles of the organization of local self-government in the Russian Federation”’.

ary 2005, all the necessary work had to be done within a rather short period.

On 2 June 2004, Oblast Law of No. 200-OZ, “On the status and borders of municipal formations in Novosibirsk Oblast” came into force, whereby the status of 30 municipal raions, 5 city okrugs (the town of Berdsk, the town of Iskitim, the city of Novosibirsk, the town of Ob’, the workers’ settlement of Koltsovo), 26 urban settlements and 429 rural settlements was determined, with the approval of the cartographic descriptions of their borders.

Almost simultaneously with the establishment of the borders of municipal formations in the Oblast, the amendments to Oblast Law of 7 May 1997, No. 63-OZ, “On the administrative-territorial organization of Novosibirsk Oblast” were developed and enacted⁶⁵. These changes in the Law were aimed primarily at bringing the terminology applied in that Law in conformity with the terminology of Federal Law No. 131-FZ. In particular, new definitions of the terms “urban settlement” and “rural settlement” were introduced, while in the Law’s previous wording they had been synonymous to the terms “urban population unit” and “rural population unit”.

The work of determining the administrative centers of those municipal formations where there existed several population units turned out to be more time-consuming. The corresponding law was adopted only in mid-December 2004⁶⁶.

In June of the same year (2004), the preparations for the elections to the bodies of local self-government of the municipal raions of Novosibirsk Oblast were started. In particular, it was ordered to the heads of the territorial administrations in the Oblast’s raions to prepare and put forth their proposals concerning the outlines of the electoral districts established for the elections of deputies to the representative bodies of local self-government, including graphic images, to coordinate them with the

⁶⁵ Law of Novosibirsk Oblast of 15 June 2004, No. 194-OZ, “On introducing changes into the Law of Novosibirsk Oblast “On the administrative-territorial organization of Novosibirsk Oblast”.

⁶⁶ Law of Novosibirsk Oblast of 17 December 2004 year, No. 246-OZ, “On the administrative centers of the municipal raions and rural settlements of Novosibirsk Oblast”.

territorial electoral boards and then to submit to the Oblast Administration⁶⁷.

In Article 85 of Federal Law No. 131-FZ it was established that the numbers of deputies in representative bodies, the periods of office of the deputies and heads of municipal formations (if no referendum had been held in a municipal formation concerning the issue of the structure of the bodies of local self-government), and the dates of elections in the newly created municipal formations were to be determined by the bodies of state authority of RF subjects. These decisions were to be adopted before 31 March 2005. In Novosibirsk Oblast all the necessary Laws and amendments to the already existing Laws were adopted before October 2004.

In particular, Oblast Law of 12 July 2004, No. 211-OZ, “On bodies of local self-government of municipal raions in Novosibirsk Oblast” came in force on 12 July 2004. By this Law, the following terms were introduced for the bodies of local self-government of municipal raions:

- the representative body of a municipal raion – the council of deputies of [...] (the name of a given municipal raion);
- the head of a municipal raion – the head of [...] (the name of a given municipal raion);
- the local administration of a municipal raion – the administration of [...] (the name of a given municipal raion).

The Law also regulated the procedure for forming the councils of deputies of the first convocation of municipal raions and the method for electing the heads of municipal raions. In accordance with the procedure established thereby, both the deputies and the heads of raions were to be elected at general elections on the basis of a universal right of equal and direct suffrage, with secret balloting. The period of office was established for 5 years. The Law also determined the numbers of deputies in the councils of deputies.

In July 2004, the Oblast’s suffrage legislation was amended; in particular, changes were introduced into two oblast laws:

⁶⁷ Decree of Governor of Novosibirsk Oblast of 15 June 2004, No. 381, “On the preparation to the oncoming elections to the bodies of local self-government of the municipal raions of Novosibirsk Oblast”.

- Law of Novosibirsk Oblast of 27 October 2003, No. 147-OZ, “On elections of heads of municipal formations in Novosibirsk Oblast”⁶⁸;
- Law of Novosibirsk Oblast of 6 September 2002, No. 44-OZ, “On elections of deputies to representative bodies of local self-government in Novosibirsk Oblast”⁶⁹.

In accordance with the new wordings of these Laws, in the newly created municipal raions the formation of the municipal electoral boards, the designation of the first elections of the heads of municipal raions and the deputies to the representative bodies, the formation of electoral districts, and other election-related measures were to be executed by the Governor of Novosibirsk Oblast or, by the Governor’s appointment, by another official. The Governor was also to approve the outlines of electoral districts. The elections were to be financed from the oblast budget. Thus, in September–October 2004 in Novosibirsk, in accordance with these changes, the decision of the Oblast’s Governor concerning the formation of electoral districts was adopted⁷⁰; the outlines and graphic images of the electoral districts for the election of deputies to the representative bodies of municipal raions were approved⁷¹, and the date for the elections set⁷².

The elections of deputies to the councils of deputies and of the heads of municipal raions in Novosibirsk Oblast took place on 5 December 2004. As soon as the bodies of local self-government had been created on the territories of raions, the decision was passed concerning the liquida-

⁶⁸ Law of Novosibirsk Oblast of 23 July 2004, No. 212-OZ, “On introducing changes into the Law of Novosibirsk Oblast “On the elections of heads of municipal formations in Novosibirsk Oblast”.

⁶⁹ Law of Novosibirsk Oblast of 23 July 2004, No. 213-OZ, “On introducing changes into the Law of Novosibirsk Oblast “On the elections of deputies to representative bodies of local self-government in Novosibirsk Oblast”.

⁷⁰ Decree of Governor of Novosibirsk Oblast of 8 October 2004, No. 616, “On the creation of electoral precincts for the election of deputies to the representative bodies of local self-government of the first convocation in municipal raions of Novosibirsk Oblast and heads of municipal raions of Novosibirsk Oblast”.

⁷¹ Decree of Governor of Novosibirsk Oblast of 3 September 2004, No. 550, “On approving the charts and graphic images of electoral districts pertaining to the elections of deputies to the representative bodies of municipal raions in Novosibirsk Oblast”.

⁷² Decree of Governor of Novosibirsk Oblast of 24 September 2004, No. 582, “On the assignation of the elections of deputies to representative bodies of local self-government in municipal raions, and of heads of municipal raions of Novosibirsk Oblast”.

tion of the previously existing territorial bodies of state authority⁷³, and the powers of the territorial bodies of state authority were terminated as of 1 January 2005.

Thus, during the year 2004, all the necessary work associated with the formation of a two-tier model of local self-government, the determination of the borders and the status of all municipal formations, and the elections to the representative bodies and of the heads of municipal formations was completed in Novosibirsk Oblast. For the reform of local self-government in the region to be complete, it was necessary to endow the newly created bodies of local self-government with powers to make decisions concerning issues of local importance and to provide them with revenue sources.

4.2.1.1. The division of Spending Powers and Objects of Municipal Property for the Period of the Year 2005

Before the coming into force of the corresponding articles of Law No. 131-FZ, the division of subjects of jurisdiction, objects of municipal property and revenue sources between municipal formations of various types had been determined by Law of Novosibirsk Oblast of 10 December 2004, No. 239-OZ, “On the division of subjects of jurisdiction, objects of municipal property and the sources of revenues of local budgets between municipal formations in Novosibirsk Oblast”. That Law was adopted for the period of one year only, and was to be no longer in force from 1 January 2006, after the coming into force of all the articles on local self-government and the amendments to budget legislation.

The Law divided subjects of jurisdiction between municipal raions and settlements. As for the lists of issues of local importance consolidated by the Oblast Law to the municipal raions and settlements of Novosibirsk Oblast, they were somewhat different from the lists established by federal legislation.

On the one hand, the trusteeship and guardianship powers had not been transferred into the jurisdiction of municipal raions. No opportunities for equalizing the levels of budget sufficiency of settlements at the expense of the resources of municipal raions were envisaged, all dota-

⁷³ Law of Novosibirsk Oblast of 10 December 2004, No. 234-OZ, “On the termination of powers of territorial bodies of state authority in Novosibirsk Oblast”.

tions allocated to these purposes were to come from the regional budget. No powers relating to the organization of library services to the population, the formation of archival funds, the collection and removal of domestic waste, the organization of the lighting of streets, or any other such powers were delegated to settlements. In actual practice the bodies of local self-government of settlements, as before, were dealing with these issues.

It should be noted that some of the issues of local importance consolidated by the Federal Law to the municipal level of authority found no reflection at all in the ways the subjects of jurisdiction had been divided between municipal raions and settlements in Novosibirsk Oblast. Thus, for example, it was not determined which level of authority was to be responsible for the collection and removal of domestic waste. No such issue was assigned to settlements, while to raions the utilization and processing of domestic waste was delegated, which does not imply its collection and removal, either. The situation in respect to the utilization and processing of industrial waste is similar, this issue having been withdrawn from among the issues of local importance assigned to raions.

On the other hand, the lists of the subjects of jurisdiction assigned to the municipal formations of Novosibirsk Oblast contained some issues that were added to the list of issues of local importance at the federal level after the regional law had already been adopted. This is true, first of all, of such issues as the organization of the provision of library services to the population, the creation of intersettlement libraries, the creation of appropriate conditions for the provision of settlements with the services for leisure organization, and the services of cultural organizations.

From the 1995 Law, "On general principles of the organization of local self-government in the Russian Federation", the lists of issues of local importance compiled for both municipal raions and settlements borrowed the powers for "the socio-cultural construction on the territories of municipal formations" (for the comparison of the lists of issues of local importance consolidated to municipal raions and to settlements, see *Table 4.1*).

In addition to the division of subjects of jurisdiction, Oblast Law No. 239-OZ established the fundamental principles and the procedure for

the division of objects of municipal property. In particular, in enumerated those objects that could be part of municipal property owned by each type of municipal formations. These lists are comparable to those established by Article 50 of Federal Law No. 131-FZ. The most significant distinctive features are as follows:

For municipal raions

- the property needed for the processing of industrial waste was taken off the list of property;
- the list of property was augmented by property needed for the organization of the supply of fuel to the municipal institutions of a municipal raion.

For settlements

- the property of settlements' libraries and the property needed for the processing of domestic waste has been taken off the list property;
- the list of property has been augmented by property needed for the formation of the archival funds of a settlement.

Besides, to the list of municipal property of the municipalities of both levels was added the property necessary for provising the population of a municipal raion with trade outlets, public catering, and consumer and communication services. Thus, it was now allowed to municipal formations to own retail outlets, centers for domestic services, public bath-houses and other institutions belonging to the services sector, which had constituted an important component of municipal property at the previous stage of the development of local self-government. And as, in accordance with Federal Law No. 131-FZ, the privatization and the changing of the function of the objects of property that were not included in the list had to be carried out before 1 January 2009, in Novosibirsk Oblast it was decided that reforming in that sphere was also to be delayed.

Since all municipal property by the time when reforming was started had been owned by settlements, by the Oblast Law it was established that settlements should prepare proposals as to which objects they wanted to keep, and which ones – to transfer to raions. In disputable cases, the creation of conciliation commissions with the participation of all related parties was possible. The final decision concerning the redistribution of the

objects of municipal property was to be made by the Governor of the Oblast.

In addition to the Law “On the division of subjects of jurisdiction ...”, the Oblast Council of Deputies of the third convocation, on 23 September 2004, approved the Decree “On the division of subjects of spending powers between the bodies of state authority of Novosibirsk Oblast and the bodies of local self-government of the municipal formations of Novosibirsk Oblast for the year 2005”. The Decree preceded the Law on the division of subjects of jurisdiction. Such a procedure for the division of spending powers was, on the one hand, contrary to the very logic of budget reform whereby first the subjects of jurisdiction were to be divided, and then each municipal formation was to independently determine its spending obligations within the area of its competence. On the other, this procedure was necessary in a situation when the budgets for the year 2005 had to be formed for all municipal formations, including the newly created municipal raions, where the bodies of local self-government had been elected only in late December 2004. The division of spending powers between the oblast and local budgets is shown in *Table 4.2*.

If one compares the subjects of jurisdiction of municipal formations with their spending powers in the year 2005, it will become obvious that the spending powers of settlements went somewhat beyond the list of subjects of jurisdiction established by the Oblast Law in December 2004. In particular, in accordance with the Decree of the Oblast Council of Deputies, the upkeep of libraries was funded from both the oblast budget and from the local budgets of municipal formations of all types. From the oblast budget the oblast libraries were funded, from the raion budgets – the distributing centers for libraries, and from the budgets of city okrugs and settlements – the libraries of city okrugs and raions, respectively. As has already been mentioned, the Oblast Law contained no mention of libraries as a subject of jurisdiction consolidated to settlements. A similar situation existed in respect to environmental control which, in accordance with the Decree, was to be financed from the budgets of municipal raions and city okrugs; however, it was not included in the list of subjects of jurisdiction consolidated to municipal raions.

4.2.1.2. The Division of Revenues in 2005

In addition to subjects of jurisdiction and objects of municipal property, the Law of Novosibirsk Oblast “On the division of subjects of jurisdiction ...” also established that the normative rate for the deductions from tax revenues transferable to local budgets were to be determined by an oblast law on budget. The same law was also to regulate the procedure for allocating dotations from municipal budgets for equalizing the levels of budget sufficiency, as well as subventions and subsidies.

The normative deductions consolidated to local budgets by the Law on the oblast budget of Novosibirsk Oblast for the year 2005 are shown in *Table 4.1*. As can be seen from the table, these normative deductions fully correspond to those consolidated by the RF Budget Code to local budgets throughout Russia’s territory from 1 January 2006.

In addition to tax and non-tax revenues, the revenues of the local budgets in the oblast are constituted by dotations, subsidies and subventions allocated to the execution of the state powers transferred to them.

By the Law of the oblast budget of Novosibirsk Oblast for the year 2005, the dotations for the equalization of the levels of socio-economic development from the oblast budget to local budgets are determined⁷⁴. The size of dotations is defined as the difference between the forecasted revenues and forecasted expenditures of local budgets. Thus, that particular methodology for calculating dotations did not imply any equalization of budget sufficiency, leaving unchanged the previously applied mechanisms for the allocation of financial aid to cover budget deficit.

⁷⁴ The annexes to Law of Novosibirsk Oblast of 11 December 2004, No. 244-OZ, “On the Oblast budget of Novosibirsk Oblast for the year 2005” contain “The procedure for granting and calculating the dotations to the equalization of the levels of socio-economic development from the oblast budget to local budgets” and “The Provision on the Fund for financial support of municipal formations in Novosibirsk Oblast”. However, from the content of these annexes it is not clear whether the dotations to the equalization of the levels of socio-economic development from the oblast budget to local budgets are to be covered by the resources of the Federal Fund for Financial Support of Municipal Formations, of whether they represent dotations of a quite different type.

Table 4.1

**Normative deductions from federal taxes and levies, taxes envisaged
by special tax regimes, and non-tax revenues transferred
to local budgets, %**

	Municipal raions	City okrugs	Settlements
Tax on profit of organizations (except for workers' settlement Koltsovo)	0	0	0
Tax on profit of organizations in workers' settlement Koltsovo		25	
Personal income tax	20	30	10
Single tax on presumptive income for certain types of activity	90	90	
Single agricultural tax	30	60	30
Personal property tax		100	100
Personal property tax, applied in intersettlement territories	100		
The land tax		100	100
The land tax, applied in intersettlement territories	100		
State duty (collectable at place of registration, conclusion of juridically valid deeds, or issue of documents):	100	100	
Fee for negative impact on environment	40	40	
Revenues from sale and lease of state-owned plots of land located within borders of settlements or city okrugs, and earmarked for purposes of housing construction before division of state land property		100	100

Source: Law of Novosibirsk Oblast of 11 December 2004, No. 244-OZ, "On the oblast budget of Novosibirsk Oblast for the year 2005".

For the financing of certain specific state powers delegated to the municipal level, subventions are allocated to local budgets from the oblast compensation fund. The procedure for calculating the subventions is determined by the Methodology for calculating the normatives for determining the volume of subventions being transferred to local budgets. The following types of subventions are calculated in accordance with this

following types of subventions are calculated in accordance with this Methodology:

- subventions to back the activity of deputies of the Oblast Council of Deputies on the territories of electoral districts;
- subventions for the implementation of the program for the development of a “science city” at the workers’ settlement of Koltsovo;
- subventions for the provision to the population of targeted subsidies to cover housing and utilities fees;
- subventions for the implementation of basic comprehensive curricula and for the upkeep of boarding schools and orphanages;
- subventions for the payment of additional bonuses to the specialists and highly qualified staff of libraries and museums in the oblast’s raions;
- subventions for the backing of state powers relating to the provision of specialized medical care;
- subventions to compensate for the expenditures of the providers of transport services in excess of the cost of the single transport cards issued to persons entitled to social support, including pensioners.

Besides, the Methodology determines the sizes of subventions to cover the expenditures on construction and reconstruction of the objects of municipal property included in the list of measures designed to protect the environment and implemented on the territory of Novosibirsk Oblast in 2005, as well as the objects included in the list of measures to be implemented as part of the oblast target program “Environment protection in Novosibirsk Oblast in the years 2005–2008”.

The Fund for co-financing of social expenditures and the Fund for municipal development were not created in the oblast in 2005. Local budgets were receiving funding from the Federal Fund for co-financing of social expenditures, which were allocated in the local budgets to the following items:

- the subsidies to provide state support to citizens inhabiting buildings belonging to partnerships of the owners of dwellings, housing and construction cooperatives, housing cooperatives, and state offices for housing exploitation, as well as expenditures on current and capital

repairs of buildings and the maintenance of housing facilities and elevators;

- subsidies to provide measures of social support to politically rehabilitated persons and persons recognized as victims of political repression.

The resources of the Federal Fund for co-financing of social expenditures were distributed between municipal formations in proportion to the sizes of charged subsidies.

4.2.1.3. Development of the Normative-legal Base of Local Self-government in 2005

In late December 2004 and throughout 2005, the work aimed at amending oblast legislation in accordance with the requirements of Federal legislation on local self-government was continued. The attention of regional authorities was focused on the amendments to suffrage legislation and on the normative-legal base for the organization of municipal services and the functioning of the representative bodies of local self-government. Also in 2005, several laws were adopted concerning the transfer of certain state powers to the bodies of local self-government.

Reform of the Organizational Foundations of Local Self-government

In Novosibirsk Oblast, several laws are currently in force, which regulate the elections to the official posts and the representative bodies of local self-government:

- Law of Novosibirsk Oblast of 6 September 2002, No. 44-OZ, “On elections of deputies to representative bodies of local self-government in Novosibirsk Oblast”;
- Law of Novosibirsk Oblast of 27 October 2003, No. 147-OZ, “On elections of heads of municipal formations in Novosibirsk Oblast”.

In 2004–2005 these Laws were being brought in conformity with federal legislation.

In respect to the issue relating to the organization of municipal services, Law of Novosibirsk Oblast of 29 December 2004, No. 269-OZ, “On the Register of municipal posts of the municipal service in Novosibirsk Oblast” was adopted, whereby the registers of official posts for each type of municipal formations were introduced. The amendments made to Law of Novosibirsk Oblast of 10 January 1999, No. 36-OZ, “On the cor-

relation of the municipal posts in the municipal service and [those of] the state service in Novosibirsk Oblast”⁷⁵ established the normative numbers of municipal staff for municipal raions, as well as the percentage ratios of different groups of municipal posts in raion administrations and the minimum sizes of their structural subdivisions.

Certain changes were also introduced to Law of Novosibirsk Oblast of 10 January 1999, No. 39-OZ, “On the upkeep of (or remuneration to) the persons occupying elective municipal posts, and the upkeep of municipal officials in Novosibirsk Oblast”⁷⁶. As a result, the Oblast Law was brought in conformity with the Federal Law “On general principles of municipal service in the Russian Federation”. Besides, the Law introduced coefficients⁷⁷ for the assignation of salaries in the Mayor’s Office of Novosibirsk, the Controlling and Clearing House and the electoral board of Novosibirsk.

The Transfer of Certain State Powers

In late 2005, a package of several Oblast Laws was adopted, which addressed the transfer of some state powers to the municipal level. By these laws, to the bodies of local self-government of municipal raions and city okrugs the following state powers were transferred:

- some state powers for providing citizens with dwelling premises⁷⁸;
- some state powers for the payment for the labor of foster parents⁷⁹;

⁷⁵ Law of Novosibirsk Oblast of 29 December 2004 year, No. 260-OZ, “On introducing changes into the Law of Novosibirsk Oblast “On the correlation of the municipal posts in the municipal service and [those of] the state service in Novosibirsk Oblast”.

⁷⁶ Law of Novosibirsk Oblast of 9 February 2005, No. 264-OZ, “On introducing changes into the Law Novosibirsk Oblast “On the upkeep of (or remuneration to) the persons occupying elective municipal posts, and the upkeep of municipal officials in Novosibirsk Oblast”, Law of Novosibirsk Oblast of 26 September 2005, No. 317-OZ, “On introducing changes into the Law of Novosibirsk Oblast “On the upkeep of (or remuneration to) the persons occupying elective municipal posts, and the upkeep of municipal officials in Novosibirsk Oblast”.

⁷⁷ In accordance with the Oblast Law “On the upkeeping ...”, the size of the remuneration in money to persons acting as substitutes at elective municipal posts, as well as the sizes of official salaries of municipal staff, are to be established in amounts divisible by the size of the salary for the junior state post in civil service in the oblast, with the title of “specialist”. The same law also establishes the multiplicity coefficients.

⁷⁸ Law of Novosibirsk Oblast of 9 December 2005 year, No. 354-OZ, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast in the sphere of providing the citizens with housing”.

- some state powers in the sphere of social support of orphaned children and children left without the care of their parents, with the exception of the social support of those orphaned children and children left without the care of their parents who were being kept (trained and (or) raised) at federal and oblast state institutions for orphaned children and children left without the care of their parents⁸⁰:
 - the provision, free of charge, of food, a set of clothes and footwear, minor furnishing and equipment, and lodging, or full compensation for the cost of all the aforesaid;
 - the provision of clothes, footwear, minor furnishing, equipment and lumpsum money benefit at the graduation from universal educational establishments for orphaned children and children left without the care of their parents;
 - the provision, free of charge, of the use of urban and suburban public transportation, in rural areas – of intra-raion public transportation (with the exception of taxis), in the procedure established by the Administration of Novosibirsk Oblast;
 - payment for the labor of the staff of municipal educational establishments for orphaned children and children left without the care of their parents (with the exception of payment for the labor of the educational staff participating in the implementation of basic universal curricula);
- some state powers relating to education and the organization of the activity of the Commissions for the affairs of minor persons and the protection of their rights⁸¹;
- some state powers in the sphere of public health care system⁸², namely:

⁷⁹ Law of Novosibirsk Oblast of 9 December 2005 year, No. 347-OZ, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast for the payment for the labor of foster parents”.

⁸⁰ Law of Novosibirsk Oblast of 9 December 2005 year, No. 358-OZ, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast in the sphere of social support of orphaned children and children left without parental care”.

⁸¹ Law of Novosibirsk Oblast of 12 December 2005, No. 363-OL, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast in the sphere of public education and the organization of activity of commissions for the affairs of minor persons and the protection of their rights”.

- the organization of specialized medical care at specialized medical institutions for the treatment of skin and venereal diseases, narcologic problems, oncologic diseases, tuberculosis, and psychiatric diseases, and subdivisions of such specialization at the medical institutions for treatment and prevention;
- the upkeep and provision for specialized homes for infants.

To urban settlements, the powers to create the commissions for the affairs of minors and the protection of their rights, and to organize the activity of such commissions were delegated⁸³. No state powers were delegated to rural settlements.

Besides, from the municipal level were withdrawn the state powers for the decision-making and the effectuation of the procedure of changing the status of dwellings to that of non-dwellings⁸⁴, which had been executed by the bodies of local self-government since September 2004⁸⁵.

The funding to back these powers was to be envisaged in the Law on the oblast budget for the year 2006. However, in Annex 9 to that Law, which regulates the distribution of the resources of the regional compensation fund, only the funding for specialized medical care, for the upkeep of specialized homes for infants, and for the payment for the labor of foster parents is envisaged. Thus, the funding from the oblast budget did not back the execution of all the remaining state powers.

⁸² Law of Novosibirsk Oblast of 9 December 2005 year, No. 347-OZ, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast in the sphere of public health care system”.

⁸³ Law of Novosibirsk Oblast of 12 December 2005, No. 363-OZ, “On the endowment of bodies of local self-government in Novosibirsk Oblast with some state powers of Novosibirsk Oblast in the sphere of public education and the organization of activity of the commissions for the affairs of minor persons and the protection of their rights”.

⁸⁴ Law of Novosibirsk Oblast of 13 April 2005, No. 290-OZ, “On recognizing as null and void the Law of Novosibirsk Oblast “On the endowment of bodies of local self-government with some state powers pertaining to the decision-making and the effectuation of the procedure of changing the status of dwellings to that of non-dwellings”.

⁸⁵ Law of Novosibirsk Oblast of 24 September 2004, No. 224-OZ, “On the endowment of bodies of local self-government with some state powers pertaining to the decision-making and the effectuation of the procedure of changing the status of dwellings to that of non-dwellings”.

The Implementation of Law No 131-FZ in 2006

With the full coming in force of Federal Law No. 131-FZ on the oblast's territory, from 1 January 2006 the following laws were no longer in force⁸⁶:

- Law of Novosibirsk Oblast of 7 May 1997, No. 63-OZ, "On the administrative-territorial organization of Novosibirsk Oblast";
- Law Novosibirsk Oblast of 13 June 2001, No. 157-OZ, "On the territorial public self-government in Novosibirsk Oblast";
- Law Novosibirsk Oblast of 11 December 1996, No. 50-OZ, "On general meetings (or assemblies), conferences of citizens at the place of their residence in Novosibirsk Oblast";
- Law Novosibirsk Oblast of 16 March 1998, No. 3-OZ, "On the status of a deputy to the representative body of local self-government in Novosibirsk Oblast".

In 2006, the division of powers, objects of property and revenue sources between the municipal level and the level of a RF subject was to be governed by federal laws. Accordingly, the list of issues of local importance for municipal raions was to be determined by Article 15 of the Law No. 131-FZ, while that for settlements – by Article 14 of the same law. The exceptions were represented by the powers of decision-making in respect to the issues of local importance being delegated by agreements from one level of municipal authority to another.

In late May 2005, the Oblast administration issued a regulation⁸⁷ whereby the list of measures necessary for further implementation of Law No. 131-FZ was established. Among other matters, by this regulation it was ordered to the bodies of executive state authority within the oblast that they should develop draft agreements for the transfer of powers from one municipal level to another. It was planned that draft agreements should be developed for the transfer, from the level of municipal raions to

⁸⁶ Law of Novosibirsk Oblast of 9 December 2005, No. 359-OZ, "On recognizing as null and void certain laws of Novosibirsk Oblast and certain provisions of the laws of Novosibirsk Oblast regulating the issues of local self-government organization in Novosibirsk Oblast".

⁸⁷ Regulation of the Administration of Novosibirsk Oblast of 30 May 2005, No. 84-r, "On the implementation of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation" on the territory of Novosibirsk Oblast".

the bodies of local self-government of settlements, of the powers for the current upkeep of educational establishments.

To the level of municipal raions, by these agreements, the following powers were to be transferred:

- the organization, within the borders of settlements, of electric power, gas and water supply to the population, in the part related to capital repairs of the engineering infrastructure associated with the preparation of the objects of the budget-funded sphere to the heating season, and of housing and utilities objects to their functioning under winter conditions;
- the provision for the operation of salvage and rescue services, the supply of fuel;
- the preparation of a draft general plan of a settlement and the documentation for territory planning in a settlement;
- the preparation of construction permits and permits for certain objects to be put in operation, during the construction, reconstruction, the capital repairs of the capital construction objects located on the territories of settlements.

Besides, it was ordered to the Administration for financial and tax service that it should prepare amendments to regional legislation, whereby the execution of the budgets of settlements was to be delegated to the bodies of local self-government of municipal raions.

By the regulation of the Oblast administration issued in late November 2005⁸⁸, it was recommended to the bodies of local self-government that they should delegate a part of their powers to other levels of local self-government. The list of the powers to be delegated was somewhat altered as compared to that established by the previous regulation. Thus, for example, it was recommended that the bodies of local self-government of municipal raions should delegate to settlements, in addition to the powers for the current upkeep of educational establishments, also the powers for the organization of first medical and sanitary aid at the ambulatory-

⁸⁸ Regulation of the Administration of Novosibirsk Oblast of 24 November 2005, No. 1038-r, "On the implementation of the provisions of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation".

polyclinic institutions and hospitals on the territories settlement, in the part of current upkeep of first-aid and toxicological stations.

As for the bodies of local self-government settlements, it was recommended that they should delegate to raions the following powers relating to certain issues:

- capital repairs, reconstruction of objects of social importance and the utilities complex;
- the organization of the operation of salvage and rescue services, the organization of measures of mobilization readiness of municipal enterprises and institutions, the organization and execution of civil defense measures.

Besides, those settlements that had the status of the administrative centers of raions could delegate their powers relating to the provision of cultural services to the population.

The model agreement forms were part of the annex attached to the Regulation. Presently the Oblast Administration has no information as to whether any agreements have indeed been made between municipal raions and settlements.

The revenues of the local budgets were constituted by the deductions from tax and non-tax revenues, calculated at the normative rates established by the RF Budget Code. No additional normative deductions, to be transferred to local budgets, have been established.

As far as interbudgetary relations are concerned, to local budgets the dotations from the funds for financial support of municipal formations, the compensation fund and the fund for municipal development of Novosibirsk Oblast are being transferred.

In Novosibirsk Oblast there exist two funds for financial support of municipal formations: the Fund for financial support of municipal raions (or city okrugs) and the Fund for financial support of settlements. Thus, the powers for equalizing the levels of budget sufficiency of settlements have not been delegated to the bodies of local self-government of municipal raions, in which the oblast differs from many other RF subjects. The size of dotations transferred to both municipal raions and city okrugs, and to settlements, is determined as the difference between the sums of revenues and expenditures of local budgets.

As has already been mentioned, the resources from the compensation funds of municipal raions are allocated to the provision of specialized medical care, the upkeep of specialized homes for infants and the payment for the labor of foster parents. Besides, the state powers for the provision for the educational process at schools with universal comprehensive curricula, and the provision of targeted subsidies to the population for the payment of housing and utilities fees have also been delegated to the local level and are also being funded from the regional compensation fund. Another source of the revenues of local budgets is the subventions from the Federal Compensation Fund allocated to the implementation of the Federal Law “On jurors of federal courts of general jurisdiction in the Russian Federation”.

The subsidies from the Fund for municipal development are allocated to municipal formations on the following conditions:

- The existence of an adopted program for the socio-economic development of a municipal formation approved by decision of a representative body of local self-government.
- The compatibility between the goals and tasks envisaged in the programs (or projects) for the development of municipal formations and to the priorities of the socio-economic development of the territories of Novosibirsk Oblast.
- The approval, as part of the expenditures of a local budget, of the monies allocated to the co-financing of the programs (or projects) for development.

The actual need for state support in the form of monies allocated from the Fund should be determined in accordance with the methodology for assessing the levels of sufficiency, in a municipal formation, of public infrastructure objects of local importance, to be approved by the Governor of Novosibirsk Oblast.

Table 4.2

**Division of Spending Powers between Bodies of Authority
of Novosibirsk Oblast and Bodies of Local Self-government
of Municipal Formations in Novosibirsk Oblast in 2005**

Item	Division in 2005			
	Oblast Budget	Local budgets		
		Municipal Raions	City Okruks	Settle- ments
1	2	3	4	5
Section 01. STATE ADMINISTRATION AND LOCAL SELF-GOVERNMENT				
Functioning of legislative (representative) and executive bodies of state authority, upkeep of Head of Administration of subject of Russian Federation	x			
Provision for activity of Clearing House of subject of Russian Federation	x			
Functioning of bodies of local self-government		x	x	x
Section 02. JUDICIAL AUTHORITY				
Provision for activity of judges of peace	x			
Section 05. LAW ENFORCEMENT AND STATE SECURITY				
Upkeep of subordinated structures in part of management of internal affairs	x			
Upkeep of subordinated structures of raion departments of internal affairs, including <i>Remuneration of labor, with surcharges</i>	x			
<i>Other current expenditures, utilities fees, capital expenditures</i>		x		
Upkeep of subordinated structures of urban departments of internal affairs, including <i>Remuneration of labor, with surcharges</i>	x <*>		x	
<i>Other current expenditures, utilities fees, capital expenditures</i>			x	
Section 07. INDUSTRY, POWER ENGI- NEERING AND CONSTRUCTION				
<i>Fuel and energy complex</i>				
Compensation to population for difference in sale prices of solid fuel (coal, firewood)			x	x

	1	2	3	4	5
Subsidies to services provided to population by gas-supplying organizations in Oblast	x				
Construction, architecture					
Capital investments in implementation of oblast construction program / by objects of municipal property	x	x		x	x
Section 08. AGRICULTURE AND FISHERY	x				
All spending obligations, except keeping of land cadaster in municipal raions and city okrugs	x				
Keeping of land cadaster in municipal raions and city okrugs		x		x	
Section 09. PROTECTION OF ENVIRONMENT AND NATURAL RESOURCES, HYDROMETEOROLOGY, CARTOGRAPHY AND GEODEZY					
Organization of environment protection measures		x		x	
Organization and implementation of environmental control over objects of industrial and social importance		x		x	
Financing for environment protection measures (or natural reserves), upkeep of State Inspectorate for small-size vessels at the RF Ministry for Emergency Situations	x				
Section 10. TRANSPORT, COMMUNICATIONS AND INFORMATICS					
Purchase of buses	x				
Expenditures on reducing growth of tariffs on passenger motor transport		x		x	x
Support of railway transport	x				
Expenditures on reducing growth of tariffs on suburban routes of passenger river transport	x				
Expenditures on reducing growth of tariffs on carriage of passengers by other means of transportation				x	
Measures envisaged in oblast budget for support and development of information and telecommunications networks	x				
Section 11. DEVELOPMENT OF MARKET INFRASTRUCTURE					
Oblast target programs for developing market infrastructure	x				

	1	2	3	4	5
Section 12. HOUSING AND UTILITIES					
Expenditures on targeted subsidies to population to cover housing and utilities fees		x		x	
		<*>		<*>	
Capital repairs of housing fund				x	x
Expenditures on territory development				x	x
Section 13. PREVENTION AND LIQUIDATION OF CONSEQUENCES OF EMERGENCY SITUATIONS AND NATURAL DISASTERS					
Section 14. EDUCATION					
Upkeep of pre-school institutions (nurseries, kindergartens)		x		x	
Upkeep of schools – kindergartens, primary schools, partial secondary and secondary schools, comprehensive secondary schools for part-time students and schools for studies by correspondence, including					
<i>Remuneration of labor, with surcharges, other current expenditures</i>		x		x	
		<*>		<*>	
<i>Payment of utilities fees, capital expenditures</i>		x		x	
Upkeep of boarding schools and orphanages					
<i>Remuneration of labor, with surcharges, other current expenditures</i>	x	x		x	
		<*>		<*>	
<i>Payment of utilities fees, capital expenditures</i>	x	x		x	
Upkeep of institutions for extracurricular activities of children	x	x		x	
Expenditures on payment for labor of foster parents	x				
Upkeep of vocational schools, secondary specialized educational establishments	x				
Continual training of directors of basic agricultural organizations, specialists of other agricultural organizations in Oblast	x				
Training of specialists by contract	x				
Upkeep of other institutions of oblast importance and implementation of measures of oblast importance in sphere of education	x				
Upkeep of other institutions and implementation of measures in municipal raions and city okrugs in sphere of education		x		x	
Expenditures on trusteeship and guardianship		x		x	
Financing of measures aimed at fitness of children and teenagers		x		x	

	1	2	3	4	5
Section 15. CULTURE, ARTS AND CINEMATOGRAPHY					
Upkeep of palaces and houses of culture, other club-type institutions	x			x	x
Upkeep of oblast museums and permanent exhibitions	x			x	x
Expenditures on payment of additional bonuses to specialists and highly qualified staff of museums in oblast's raions			x <*>		
Upkeep of oblast libraries, distributing centers for libraries	x		x	x	x
Expenditures on payment of additional bonuses to specialists and highly qualified staff of libraries in oblast's raions			x <*>		
Support of theaters, concert organizations and other organizations for entertainment and arts	x			x	
Upkeep of other institutions and measures in sphere of culture and arts	x			x	x
Support of cinematography	x			x	x
Section 16. MASS MEDIA					
Support of TV and radio companies of oblast importance	x				
Support of periodicals founded by oblast bodies of legislative and executive authority	x				
Section 17. PUBLIC HEALTH CARE AND PHYSICAL CULTURE					
<i>Public health care</i>					
Upkeep of maternity hospitals			x		
Upkeep of oblast hospitals, medical centers and hospital-type dispensaries	x				
Upkeep of hospitals and hospital-type dispensaries providing specialized medical care in municipal raions			x <*>		
Upkeep of hospitals providing first medical and sanitary aid in municipal raions and city okrugs			x	x	
Upkeep of hospitals, hospital-type dispensaries and medical centers providing specialized medical care in city okrugs				x <*>	
Upkeep of oblast dispensaries, diagnostic and medical centers for outpatients	x			x <*>	
Upkeep of polyclinics providing first medical and sanitary aid in city okrugs				x	

	1	2	3	4	5
Upkeep of first-aid and tocological stations					
<i>Remuneration of labor with surcharges, cost of medications</i>	x				
<i>Other current expenditures, except cost of medications, payment of utilities fees</i>			x		
Upkeep of oblast station for blood transfusion	x				
Upkeep of homes for infants in municipal raions and city okrugs			x <*>	x <*>	
Upkeep of emergency medical care stations in city okrugs				x	
Upkeep of sanatoriums for patients with tuberculosis	x				
Upkeep of other oblast institutions and measures within oblast public health care system	x		x	x	
Upkeep of territorial medical united departments providing specialized medical care in city okrugs				x <*>	
Physical culture and sports					
Upkeep of subordinated structures	x		x	x	x
Measures in sphere of physical culture and sports of oblast importance	x		x	x	x
Mandatory medical insurance					
Payments for mandatory medical insurance of non-working population	x				
Section 18. SOCIAL POLICY					
Upkeep of territorial centers and departments for house social aid			x	x	
Upkeep of homes for elderly and disabled persons, institutions for training disabled persons	x				
Upkeep of other institutions and implementation of measures in aphere of social policy	x		x	x	
Social aid					
Benefits and social aid (funeral benefits)	x				
Youth-oriented policy					
Upkeep of other institutions, implementation of measures in sphere of youth-oriented policy	x		x	x	x
Other measures in sphere of social policy, except expenditures to cover cost of free use of public transportation	x				

	1	2	3	4	5
Expenditures to cover cost of free use of public transportation, except taxis, in city of Novosibirsk				x <*>	
Section 21. FINANCIAL AID TO OTHER BUDGETS WITHIN BUDGET SYSTEM					x
Section 26. ROAD ECONOMY					
Maintenance and construction of public motor roads, bridges and transport facilities		x		x	x
Section 30. OTHER EXPENDITURES					
Provision for activity of electoral boards		x			
Provision for activity of electoral boards in cities and towns of oblast importance				x	
Elections to bodies of legislative (representative) authority of subjects of Russian Federation, election of head official of subject of Russian Federation, elections to bodies of local self-government		x		x	

<*> With the exception of the city of Novosibirsk and the town of Ob', which are financed from the budgets of city okrugs.

<*> At the expense of subventions from the oblast budget.

Source: Decree of the Novosibirsk Oblast Council of Deputies of 23 September 2004 "On the division of subjects of spending powers between the bodies of state authority of Novosibirsk Oblast and the bodies of local self-government of the municipal formations of Novosibirsk Oblast for the year 2005".

4.2.2. Stavropol Krai

4.2.2.1. The Formation of the Territorial Foundations of Local Self-government (2004–2005)

Before the onset of municipal reform in 2003, in Stavropol Krai there existed the settlement-type model of local self-government. By Regional Law of 31 December 1996, No. 46-KZ, "On local self-government in Stavropol Krai", it was established that "local self-government in Stavropol Krai is to be executed within the borders of urban and rural settlements and in other territories of municipal formations". In accordance with this Law, in Stavropol Krai 289 municipal formations were created at the level of settlements, including 9 towns of raion importance, and 4 settlements. Besides, in the territory of one raion – Mineralnye Vody – the Mineralnye Vody territorial formation was created, which included

Mineralnye Vody – the town of krai importance, and the raion of Mineralnye Vody.

At the level of raions, in Stavropol Krai there existed territorial bodies of state authority, created anew in accordance with Decree of Head of Administration of Stavropol Krai of 2 August 1996, No. 480, “On creating territorial (or raion) state administrations of Stavropol Krai”.

The preparations for implementing the reform of local self-government in Stavropol Krai had begun before the adoption of the new Federal Law “On general principles of the organization of local self-government in the Russian Federation”. In April 2003, Regulation of Government of Stavropol Krai No 115-rp was issued in the Krai, whereby “The Plan for the organizational measures aimed at providing support to the territorial, raion state administrations and the bodies of local self-government of the municipal formations of Stavropol Krai in their work relating to the description and coordination of the borders of raions and municipal formations in Stavropol Krai” was approved. In accordance with this plan, the draft laws “On the procedure for establishing the borders of municipal formations in Stavropol Krai” and “On introducing changes in Articles 6 and 19 of Law of Stavropol Krai “On the administrative-territorial organization of Stavropol Krai”, as well as the methodological recommendations for the description and coordination of the borders of municipal formations, and other documents were to be developed. This regulation also approved the composition of the task force to which the responsibility for the implementation of the approved plan of measures was delegated .

As a result, on 4 July 2003, Law No. 24-KZ “On the procedure for establishing the borders of municipal formations in Stavropol Krai” was adopted, whereby the legal foundations and the requirements to the establishment of the borders of municipal formations were determined. The Law also contained a list of documents and materials to be submitted for purposes of establishing the borders of municipal formations.

On 1 December 2003, Law No. 45-KZ, “On the procedure for establishing the external borders of raions in Stavropol Krai”, was adopted, whereby the cartographic description of the borders of raions in the Krai was introduced. Later on, the enactment of this law resulted in introduc-

ing simpler procedures for establishing the borders of municipal raions, which became identical to the borders of administrative raions in the Krai, established by the same law.

The implementation of Federal Law No. 131-FZ “On general principles of the organization of local self-government in the Russian Federation” in Stavropol Krai began in February 2004, and at that time the task force was also created for preparing proposals and coordination of the activities associated with the implementation of this Law⁸⁹. In late April 2004, by Regulation of the Krai Government No. 172-rp, the Plan of Measures aimed at implementing the Federal Law in Stavropol Krai was introduced. This document envisaged that the regional normative-legal base should be brought in conformity with federal legislation; also, it determined the preparation of methodological recommendations for bodies of local self-government, including those of newly created municipal formations, the organization of the training of personnel, the task of establishing the borders of municipal formations, etc. All the measures envisaged in the Plan of Measures were to be implemented before the beginning of the year 2005.

As a result of the work accomplished in the period between February and October 2004, the laws concerning the establishment of the borders of urban and rural settlements and city okrugs were adopted.

For the borders of municipal raions to be established, certain amendments had to be introduced in Law of 4 July 2003, No. 24-KZ, “On the procedure for establishing the borders of municipal formations in Stavropol Krai”⁹⁰. In accordance with these amendments, the preparation and submission to the State Duma of Stavropol Krai of the draft law concerning the establishment of the borders of the existing municipal formations was a task that belonged to the area of competence of the bodies of local self-government, while that concerning the borders of newly created mu-

⁸⁹ Regulation of the Governor of Stavropol Krai of 11 February 2004, No. 92-r, “On the creation of a task force for preparing proposals and the coordination of work in Stavropol Krai for purposes of implementing Federal Law of 6 October 2003, No. 131-FZ, “On general principles of the organization of local self-government in the Russian Federation”.

⁹⁰ Law of Stavropol Krai of 26 July 2004, No. 63-KZ, “On introducing changes in Article 6 of the Law of Stavropol Krai “On the procedure for establishing the borders of municipal formations in Stavropol Krai”.

nicipal formations – to the area of competence of the Governor and the Government of the Krai. The borders of municipal raions were established in October 2004⁹¹.

Simultaneously, the Law of 4 October 2004, No. 88-KZ, “On the endowment of municipal formations of Stavropol Krai with the status of an urban or rural settlement, a city okrug, or a municipal raion” was adopted, in accordance with which appropriate status was granted to 9 city okrugs, 12 urban settlements, 268 rural settlements and 26 municipal raions.

The work associated with the establishment of the borders of settlements on the territory of the territorial formation “Mineralnye Vody” where, before the onset of reform, there had existed no administratively independent settlement-level municipalities, was quite time-consuming. The decisions concerning the borders of 2 urban and 13 rural settlements in that raion were made only toward late 2004⁹²; with the introduction of appropriate amendments to the Law “On the endowment of municipal formations of Stavropol Krai with the status of an urban or rural settlement, a city okrug, or a municipal raion”.

As a result, by 1 January 2005, 330 municipal formations had been created in the territory of Stavropol Krai, including 9 city okrugs, 26 municipal raions, 14 urban settlements and 281 rural settlements.

Alongside the work aimed at creating municipal formations, certain measures were being implemented in relation to the liquidation of the territorial raion state administrations of Stavropol Krai, the decision thereon having been made in August 2004⁹³. In accordance with this decision, all the liquidation procedures had to be completed before 1 January 2005. At the same time, until the endowment of the bodies of local self-government with some state powers, these powers were, as before, to be executed by appropriate subdivisions within the state administrations.

The activities in preparation for the elections to the bodies of local self-government of the newly created municipal formations began in the

⁹¹ Law of Stavropol Krai of 4 October 2004, No. 89-KZ, “On establishing the borders of municipal raions in Stavropol Krai”.

⁹² Law of Stavropol Krai of 31 December 2004, No. 115-KZ “On establishing the borders of municipal formations and on establishing their borders in raion Mineralnye Vody of Stavropol Krai”.

⁹³ By Decree of Governor of Stavropol Krai of 2 August 2004, No. 437, “On abolishing territorial raion state administrations in Stavropol Krai”.

summer of 2004, when Law of 22 July 2004, No. 60-KZ, “On some issues of the execution of local self-government in the territories of raions in Stavropol Krai” was adopted. This Law established the names of the bodies of local self-government of newly created municipal raions. Thus, the representative body of a municipal raion is to be named “the council of a given raion”, the head of a municipal raion is to be named “the head of a given municipal raion”, while its executive-managerial body – “the administration of a given raion”.

The Law also regulated the procedure for creating the councils of municipal raions. In accordance with this procedure, the councils of municipal raions of the first convocation were to be formed by way of delegating representatives from the bodies of local self-government of settlements. The procedure for forming the councils of the next convocations was to be determined by the heads of raions, and in this connection it was possible to form the councils of raions by both delegating representatives from settlements and by holding municipal elections.

When the councils of municipal raions are formed by delegating representatives from the bodies of local self-government of settlements, from each settlement to the council of a municipal raion the head of a settlement and two deputies from the representative body of a settlement are delegated. The period of office for the councils of municipal raions of the first convocation, formed in that procedure, is three years.

The procedure for replacing the heads of municipal formations, in accordance with the Law “On some issues of the execution of local self-government in the territories of raions in Stavropol Krai”, was to be determined by appropriate provisions in the municipal charter, while the heads of the administrations of municipal raions were to be appointed to their posts by contract, which was to be concluded on the basis of the results of a contest among the candidates for the aforesaid post. The terms of the contract for the post of the head of the administration of a municipal raion and a city Okrug, in the part of executing certain state powers, were approved by Krai Law of 6 December 2004, No. 98-KZ⁹⁴.

⁹⁴ Law of Stavropol Krai of 6 December 2004, No. 98-KZ, “On the terms of contracts for the heads of the administrations of municipal raions and city okrugs relating to the execution of some state powers”.

The procedure for forming the bodies of local self-government of the newly created settlements in raion Mineralnye Vody was established by Law of Stavropol Krai of 4 April 2005, No 18-KZ, "On some issues of the organization of local self-government in the territory of raion Mineralnye Vody of Stavropol Krai". In accordance with this Law, the representative bodies of the first convocation and the heads of municipal formations are to be elected in the procedure of municipal elections. The period of office is 5 years.

In October 2004, the process of forming the councils of municipal raions began⁹⁵, which was completed on 16 November 2004 by the issue of a resolution by the Electoral Board of Stavropol Krai on the basis of decisions made by the representative bodies of settlements, whereby the councils of raions were recognized as having been formed. As a result, the total number of deputies in the representative bodies throughout the Krai, according to the information published by the Administration of Stavropol Krai, increased by 829 persons. In late November 2004, the contest boards were formed for the contest-based selection of candidates to the posts of heads of administrations of newly created municipal formations⁹⁶. By early 2005, the process of forming the bodies of local self-government at the level of municipal raions has been completed. The data concerning the changes in the organizational foundations of local self-government in Stavropol Krai, resulting from the implementation of Federal Law No. 131-FZ, are shown in *Table 4.3*.

In the settlements in the territory of raion Mineralnye Vody, the elections to the representative bodies of local self-government took place on 19 June 2005, and the heads of municipal formations were elected on 30 October 2005.

⁹⁵ Decree of the State Duma of Stavropol Krai of 1 October 2004, No. 979-III SDSK, "On beginning the formation of councils of municipal raions of Stavropol Krai of the first convocation".

⁹⁶ Decree of the State Duma of Stavropol Krai of 25 November 2004, No. 1064-III SDSK, "On appointing the members of the Contest Commission for the conduct of contests for replacement of heads of administration of municipal raions in Stavropol Krai".

Table 4.3

Some Changes in Organizational Foundations of Local Self-government in Stavropol Krai Resulting from Implementation of Federal Law

Index	as of 8 October 2003	as of 1 January 2005
Total number of municipal formations	290	330
Elected representative bodies of local self-government	290	315
Number of deputies in bodies of local self-government	1764	2593
Number of heads of administrations of municipal formations, appointed by results of contest	4	29
Number of top officials of representative bodies, employed on permanent basis	15	34

Source: Report “Implementation of Federal Law of 6 October 2003, No. 131-FZ, ‘On general principles of the organization of local self-government in the Russian Federation’ in Stavropol Krai” (http://regfin.tambov.ru/Documents/MethodicalStuff/MS_ManagerSeminar/buklet150405.doc).

4.2.2.2. Development of Normative-legal Base of Local Self-government in 2005–2006

In the years 2005–2006, main efforts in the sphere of lawmaking were focused on the task of bringing regional legislation in conformity with federal legislation, the adoption of normative-legal acts for the regulation of the transfer to the municipal level of some state powers, the division of property and the reforming of interbudgetary relations.

In particular, on 2 March 2005, the new Law of Stavropol Krai, No 12-KZ, “On local self-government in Stavropol Krai”, was adopted, whereby the Krai’s legislation was made compatible with Federal Law No. 131-FZ “On general principles of the organization of local self-government in the Russian Federation”, and also the legal relations that had arisen from 1 January 2005 were regulated. More specifically, by this Law the issues of local importance were divided between municipal formations of different levels, the organizational foundations of local self-government were regulated, etc. This Law replaced the previously existing Law No. 46-KZ “On local self-government in Stavropol Krai”, which had regulated the issues relating to the organization of local self-government in the period between 1996 and 2005.

On 1 March 2005, Law of Stavropol Krai No. 9-KZ, “On the administrative-territorial organization of Stavropol Krai”, was adopted, which established the procedure for determining and changing the borders of raions throughout the territory of the Krai, the general procedure for the creation, transformation and abolition of population units, as well as the criteria for placing a population unit within a certain category. This Law established the territorial foundations of the Krai’s administrative structure established, in accordance with which the bodies of state authority were to execute their powers throughout the whole territory of the Krai, while the bodies of local self-government – within the borders of their municipal formations.

Also in March 2005, certain amendments were made to the normative - legal acts regulating the issues relating to the municipal service in the Krai. In particular, the following laws were amended:

- “On the municipal service in Stavropol Krai”⁹⁷;
- “On the Register of municipal posts of the municipal service in Stavropol Krai”⁹⁸;
- “On the system of official salaries of municipal officers within the municipal service in Stavropol Krai”⁹⁹.

Besides, changes were introduced to the Law “On the procedure for establishing the borders of municipal formations in Stavropol Krai”¹⁰⁰, from which the requirements to the establishments of the borders of municipal formations were now excluded. Presently, the borders must be established in accordance with the requirements stipulated in Federal Law No. 131-FZ.

⁹⁷ Law of Stavropol Krai of 1 March 2005, No. 7-KZ, “On introducing changes into the Law of Stavropol Krai “On the municipal service in Stavropol Krai”.

⁹⁸ Law of Stavropol Krai of 1 March 2005, No. 8-KZ, “On introducing changes into the Law of Stavropol Krai “On the Register of municipal posts of the municipal service in Stavropol Krai”.

⁹⁹ Law of Stavropol Krai of 2 March 2005, No. 13-KZ, “On introducing changes into the Law of Stavropol Krai “On the system of official salaries of municipal officers within the municipal service in Stavropol Krai”.

¹⁰⁰ Law of Stavropol Krai of 20 June 2005, No. 27-KZ, “On introducing changes into Article 3 of Law of Stavropol Krai “On the procedure for establishing the borders of municipal formations in Stavropol Krai”.

On 20 June 2005, amendments were made to the Charter of Stavropol Krai¹⁰¹, whereby the subjects of administratively independent jurisdiction in Stavropol Krai, as a RF subject, were determined, as well as the procedure for the appointment and the powers of the Governor of Krai. Some changes were made to Chapter 7 of the Krai Charter, entitled “Local self-government in Stavropol Krai”, whereby it was established that local self-government was to be executed in urban and rural settlements, city okrugs and municipal raions. Into this chapter were also included the norms to the effect that the subjects of jurisdiction for municipal formations were to be established by federal legislation only.

In late 2005, changes were made to the Law “On referendum of Stavropol Krai and local referendum”¹⁰², whereby the norms of Krai legislation were brought in conformity with the norms of federal legislation.

Rather active was also the development of the process of endowing the bodies of local self-government with some state powers. The first laws were adopted at the very end of the year 2004. To municipal raions and city okrugs the powers relating to archives, the public health care system, social support, physical culture and sports, and agriculture were transferred.

In 2005, the list of powers relating to the social support and the provision of social services to certain categories of citizens transferred to municipal raions was extended. Municipal raions were now endowed with the powers to provide support to families with many children and annual benefits to students to cover their transport expenditures. In March 2005, the procedure for the use of material resources transferred to local bodies of state authority for the execution of some state powers was established¹⁰³. Toward the end of that year, to the level of municipal raions and

¹⁰¹ Law of Stavropol Krai of 20 June 2005, No. 29-KZ, “On the amendments to the Charter (or the Fundamental Law) of Stavropol Krai”.

¹⁰² Law of Stavropol Krai of 6 December 2005, No. 64-KZ, “On making changes to the Law “On referendum of Stavropol Krai and local referendum”.

¹⁰³ Decree of the Government of Stavropol Krai of 30 March 2005, No. 40-p, “On approving the procedure for the use of material resources transferred to the bodies of local self-government of municipal formations in Stavropol Krai for the execution of some state powers of Stavropol Krai”.

city okrugs the powers in the sphere of youth-oriented policy and the State registration of acts of civil status were transferred.

In 2006, the bodies of local self-government of city okrugs and municipal raions were endowed with the powers for the provision of state support to the state museums in Stavropol Krai. Besides, some changes were made to the laws concerning the granting of certain state powers in the sphere of specialized medical care, social support to orphaned children, and agriculture¹⁰⁴.

Considerable efforts were made in the Krai in relation to the division of property between the regional and municipal levels. As of 5 April 2005, decisions were made in respect to 1,142 objects of property, including 1,091 objects transferred from state ownership into the ownership of municipal formations, and 51 objects – from municipal ownership into the ownership of Stavropol Krai.

Table 4.4

**Information Concerning Transfer of Property
following Division of Powers between Bodies of State
Authority of Stavropol Krai and Bodies of Local
Self-government of Stavropol Krai, as of 01.01.2006**

Type of Property	Number of Transferred Objects of Property (Total)
Property Transferred from State Ownership of Stavropol Krai into Municipal Ownership of Municipal Formations in Krai	
1	2
educational establishments	691
educational establishments (athletic schools)	6
sports institutions	3
institutions of public health care system	45
cultural institutions	145
SUE for providing domestic services to population	14
agricultural enterprises	18
retail outlets and markets	6
HUS enterprises	8
printing shops	1

¹⁰⁴ For more details concerning the endowing of the bodies of local self-government with some state powers, see Subsection 4.2.2.3.

1	2
abolished territorial, raion state administrations (property)	26
abolished Committees for state property management under territorial raion administrations (property)	24
abolished departments for public education at territorial raion state administrations (property)	26
abolished departments for agriculture at territorial raion administrations (property)	26
abolished departments for labor and social protection at territorial raion administrations (property)	26
abolished financial departments of Ministry of Finance of Stavropol Krai (property)	26
2. Property transferred from municipal ownership of municipal formations into state ownership of Stavropol Krai	
educational establishments	19
institutions of public health care system	17
cultural institutions	8
institutions for providing social services to population	7

Source: Information on the implementation in Stavropol Krai of Federal Law of 6 October 2003, No 131-FZ, “On general principles of the organization of local self-government in the Russian Federation” in 2005 (<http://gubernator.stavkrai.ru/mo/2005.doc>).

The the sphere of reforming interbudgetary relations, the most important development was the adoption of Law of Stavropol Krai of 21 November 2005, No. 55-KZ, “On interbudgetary relations in Stavropol Krai”. This Law was prepared in accordance with the new requirements in budget legislation concerning the organization of interbudgetary relations in RF subjects. The Law regulates the consolidation of revenue sources to municipal formations, and determines the types of interbudgetary transfers to be applied in the Krai, as well as the terms for their allocation, etc.

Throughout the year 2005, a substantial amount of work was carried out in respect to the development of methodologies for the formation and distribution of resources from the Krai funds, as envisaged in the Law “On interbudgetary relations...”. In particular, during the period between June and December 2005, the methodologies for distributing the resources from the Krai Fund for co-financing of social expenditures among different items of expenditure were approved, including:

- the implementation of measures for ensuring traffic safety on motor roads¹⁰⁵;
- measures aimed at providing housing to specialists employed in the public health care system and the educational staff in rural areas¹⁰⁶;
- the organization and provision of medical care¹⁰⁷;
- measures for providing social support, in terms of payment for housing and utilities services, to certain categories of citizens employed and residing in rural areas¹⁰⁸;
- the procession, by the Municipal Unitary Enterprise “Piatigorskii Teploenergeticheskii Komplex” [“Piatigorsk Heat and Power Engineering Complex”], of the domestic waste removed from households and the budget-funded organizations of Stavropol Krai¹⁰⁹.

Later on, these methodologies were incorporated, in the form of annexes, in the Krai Law on the budget for the year 2006.

¹⁰⁵ Decree of the Government of Stavropol Krai of 21 December 2005, No. 155-p, “On approving the methodology for the distribution of the resources of the Krai Fund for co-financing of the social expenditures allocated to the budgets of the municipal formations of Stavropol Krai for the implementation of measures aimed at ensuring road traffic safety”.

¹⁰⁶ Decree of the Government of Stavropol Krai of 28 October 2005, No. 135-p, “On approving the methodology for the distribution of the resources of the Krai Fund for co-financing of the social expenditures allocated to the budgets of the municipal formations of Stavropol Krai and earmarked for measures aimed at providing housing to specialists employed in the public health care system and the educational staff in rural areas”.

¹⁰⁷ Decree of the Government of Stavropol Krai of 21 September 2005, No. 120-p, “On approving the methodology for the distribution of the resources of the Krai Fund for co-financing of the social expenditures allocated to the budgets of the municipal formations of Stavropol Krai for the execution of expenditures on the organization and provision of medical care”.

¹⁰⁸ Decree of the Government of Stavropol Krai of 31 August 2005 No. 108-p, “On approving the methodology for the distribution of the resources of the Krai Fund for co-financing of the social expenditures allocated to the budgets of the municipal formations of Stavropol Krai and earmarked for the execution of expenditures on the social support measures in respect to the payment for housing and utilities services provided to certain categories of citizens employed and residing in rural areas”.

¹⁰⁹ Decree of the State Duma of Stavropol Krai of 2 June 2005, No. 1277-III, “On the procedure for granting and spending the resources of the Krai Fund for co-financing of the social expenditures, allocated to the budgets of the municipal formations of Stavropol Krai in respect to the expenditures on the procession, by the Municipal Unitary Enterprise “Piatigorskii Teploenergeticheskii Komplex” [“Piatigorsk Heat and Power Engineering Complex”], of domestic waste removed from households and the budget-funded organizations of Stavropol Krai”.

4.2.2.3. The Endowment of Municipal Formations with some State Powers

The first decisions concerning the transfer of some state powers to the municipal level were adopted in late December 2004. These powers were transferred to city okrugs and municipal raions (for the information as to which municipal formations were endowed with these state powers, see *Table 4.5*). To municipal raions and city okrugs, the following state powers were transferred:

- in the sphere of physical culture and sports¹¹⁰:
 - the organization and implementation, on the territories of municipal formations, of measures envisaged in programs in the sphere of physical culture and sports;
 - the preparation for and the organization of the participation of athletes residing on the territories of municipal formations in events organized within the framework of programs in the sphere of physical culture and sports.
- in the sphere of agriculture¹¹¹:
 - the granting of subsidies to cover part of the cost of mineral fertilizers and agents applied in the protection of plants;
 - the granting of subsidies to cover part of the cost of electric power consumed by the intra-farm land-improvement pump stations;
 - the granting of subsidies to livestock products;
- in the sphere of social support of certain categories of citizens¹¹²:
 - the powers for supporting disabled children¹¹³, including the powers in respect to the following issues:

¹¹⁰ Law of Stavropol Krai of 31 December 2004, No. 118-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai in the sphere of physical culture and sports”.

¹¹¹ Law of Stavropol Krai of 31 December 2004, No. 119-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai in the sphere of agriculture”.

¹¹² Law of Stavropol Krai of 31 December 2004, No. 124-KZ, “On the endowment of bodies of local self-government of municipal raions and city okrugs in Stavropol Krai with some state powers of Stavropol Krai in the sphere of social support and social services to certain categories of citizens”.

- the raising and education of disabled children kept at state specialized (rehabilitative) educational establishments for children with developmental problems;
- the provision for disabled children, who are being taught at home by specialized educational establishments for children with disabilities, with special textbooks and other literature, as well as with the possibility to engage the services of surd translators {persons employed as hearing aides};
- the powers for the support of orphaned children and children left without the care of their parents¹¹⁴, including:
 - full state-funded upkeep of orphaned children and children left without the care of their parents;
 - the upkeep of foster families;
 - the free-of-charge education of orphaned children and children left without the care of their parents at preparatory courses, with the purpose of their entering secondary vocational and higher professional educational establishments;
 - the provision of board and lodging to the graduates of all types of educational establishments in Stavropol Krai, and to the students on holidays and week-ends;
 - the provision of free-of-charge use of urban and suburban public transportation, in rural areas – of intracounty public transportation (with the exception of taxis), as well as free-of-charge journeys to and from the place of studying once a year;
 - the assignation and payment of money benefits for the upkeep of a child to his or her guardian (or trustee);
- powers for the social support and social services to certain categories of citizens, including in respect to the following issues:

¹¹³ Law of Stavropol Krai of 31 December 2004, No. 121-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to social support of disabled children”.

¹¹⁴ Law of Stavropol Krai of 31 December 2004, No. 120-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to social support of orphaned children and children left without parental care”.

- the provision of measures of social support to persons who worked on the home front during the period between 22 June 1941 and 9 May 1945, to Veterans of Labor, to politically rehabilitated persons, to persons recognized as victims of political repressions, and to families with many children, in accordance with federal and Krai legislation;
- the assignation and payment of monthly child benefits in accordance with the Law of Stavropol Krai “On the monthly child benefit”;
- the provision for the activities of state institutions for social services;
- in the sphere of archives¹¹⁵:
 - the powers the formation, upkeep and use of the Archival Fund of Stavropol Krai;
- in the sphere of public health care system¹¹⁶:
 - the organization of the provision of specialized medical care at dispensaries for skin and venereal diseases, dispensaries for tuberculosis, narcologic dispensaries, oncologic dispensaries, and other specialized medical institutions.

In 2005, to the municipal level were transferred the powers for keeping records of acts of civil status¹¹⁷. These powers were transferred to the bodies of local self-government in those municipalities of different types on whose territories there existed no special bodies for keeping records of acts of civil status. In this connection, to the bodies of local self-government of rural settlements were transferred the powers of state reg-

¹¹⁵ Law of Stavropol Krai of 31 December 2004, No. 122-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to the formation, upkeep and use of the Archival Fund of Stavropol Krai”.

¹¹⁶ Law of Stavropol Krai of 31 December 2004, No. 123-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to the settlement of issues of organizing specialized medical care at dispensaries for skin and venereal diseases, dispensaries for tuberculosis, narcologic dispensaries, oncologic dispensaries, and other specialized medical institutions”.

¹¹⁷ Law of Stavropol Krai of 30 December 2005, No. 82-KZ, “On the endowment of bodies of local self-government municipal formations in Stavropol Krai with the powers to effectuate the State registration of acts of civil status”.

istration of births, marriages, divorces, the establishment of paternity, and deaths.

Also in 2005, the powers of municipal raions and city okrugs in the sphere of social support to certain categories of citizens were expanded¹¹⁸. Into the jurisdiction of the bodies of local self-government, the provision of measures of social support was transferred in accordance with c Law Stavropol Krai “On the social support measures for families with many children and for those full-time students of secondary specialized educational establishments and higher educational establishments who have been recognized as persons with low income”.

In 2006, the process of transfer of some state powers to the municipal level continued. In particular, to municipal raions and city okrugs were transferred the powers relating to state support of the state museums of Stavropol Krai¹¹⁹, which are as follows:

- the provision for the functioning of state museums in Stavropol Krai;
- the financial provision for the organization of security measures at state museums and the safety of the museum items and museums collections kept therein;
- the provision of the safety, upkeep, use and restoration of museum items and museum collections kept at state museums, in accordance with legislation of the Russian Federation and legislation of Stavropol Krai.

The powers of the bodies of local self-government of municipal raions in the sphere of rural agriculture were also expanded, they were endowed with the powers for the compensation of a part of the cost of interest payments on credits and loans obtained from Russian credit institutions

¹¹⁸ Law of Stavropol Krai of 1 August 2005, No. 43-KZ “On the social support measures for families with many children and for those full-time students of secondary specialized educational establishments and higher educational establishments who have been recognized as persons with low income”.

¹¹⁹ Law of Stavropol Krai of 16 March 2006 No. 15-KZ “On the endowment of bodies of local self-government of municipal raions and city okrugs in Stavropol Krai with some state powers of Stavropol Krai pertaining to state support of the state museums of Stavropol Krai”.

and agricultural cooperatives for purposes of developing small-size forms of business in the agroindustrial complex¹²⁰.

From the year 2006, the bodies of local self-government of city okrugs and municipal raions, in the sphere of youth-oriented policy¹²¹, have been executing the following state powers:

- the organization and conduct of raion-level (or city-level) stages of the following events:
 - Krai competitions, exhibitions, festivals, and shows with the participation of amateur groups of children and young people;
 - Krai events in the sphere of physical culture and fitness, sports competitions and military-sports games for young people;
 - Krai events dedicated to jubilees of national historic events and the events relating to the Krai's history and culture, other Krai events of civil and patriotic orientation.
- aid in the organization of specialized children's summer camps of military-sports and patriotic orientation;
- aid in the activities of military-patriotic, military-historical and military-sports clubs for young people and amateur research associations;
- the collection and provision of information for the problems of young people to be objectively featured in the mass media and in special informational, reference and other publications.

Thus, during the three years since the onset of municipal reform, a considerable volume of state powers has been transferred to the municipal level. In a vast majority of cases, these powers were transferred to city okrugs and municipal raions. The exception is represented by the powers to keep records of acts of civil status which, according to the available information, were transferred only to settlements. Besides, all municipal formations are executing the powers relating to the preparation for the All-Russian agricultural census.

¹²⁰ Law of Stavropol Krai of 16 April 2006, No. 23-KZ, "On introducing changes into the Law of Stavropol Krai "On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai in the sphere of agriculture".

¹²¹ Law of Stavropol Krai of 30 December 2005, No. 81-KZ, "On the endowment of bodies of local self-government of municipal raions and city okrugs in Stavropol Krai with some state powers of Stavropol Krai in the sphere of policies oriented to young people".

Table 4.5

Information Concerning the Endowment of Bodies of Local Self-government with some State Powers, as of 01.07.2006

List of State Powers Transferred to Bodies of Local Self-government in Krai	Number of Municipal Formations Endowed with these Powers			
	Total	City Okrugs	Municipal Raions	Settlements
1	2	3	4	5
For social support of orphaned children and children left without care of their parents	35	9	26	
For social support of disabled children	23	6	17	
In sphere of social support and social services to certain categories of citizens	35	9	26	
For the formation, upkeep and use of Archival Fund of Stavropol Krai	34	9	25	
For organization of provision of specialized medical care	7	5	2	
In sphere of public health care system	34	8	26	
In sphere of physical culture and sports	25		25	
In sphere of rural agriculture	26		26	
In sphere of youth-oriented policy	35	9	26	
For support of state museums in Stavropol Krai	11	4	7	
For state registration of acts of civil status *	271			271
For preparations for All-Russian agricultural census *	330	9	26	295

* From the Report "Information on the implementation, in Stavropol Krai, of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation" in the first half-year 2006" (http://gubernator.stavkrai.ru/mo/31_06_06.doc).

Source: Laws of Stavropol Krai on the endowment of bodies of local self-government with some state powers.

4.2.2.4. Reform of Interbudgetary Relations

Until the coming in force of the articles of the RF Budget Code on the regulation of interbudgetary relations, the revenues of local budgets for the year 2005 in Stavropol Krai were subject to regulation by Krai Law of 31 December 2004, No. 126-KZ, "On the budget of Stavropol Krai for the year 2005". The normative deductions from tax and non-tax revenues consolidated by this Law to local budgets were similar to the normative deductions envisaged in the RF Budget Code.

The exception is represented by the revenues from the sale and lease of state-owned plots of land earmarked for housing construction. According to the Budget Code, to the budgets of settlements the revenues from such plots of land located within the borders of settlements are transferred, while to the budgets of municipal raions – the revenues from the plots of land located on intersettlement territories. By Law of Stavropol Krai, it is established that to the budgets of settlements the non-tax revenues from the plots of land located within the borders of settlements should be transferred, while to the budgets municipal raions – the revenues from the plots of land located within the borders of municipal raions. In this connection, it remains unclear, from our analysis of legislation, to the budget of which level (raion or settlement) these revenues were actually being transferred, because the whole territory of municipal raions in the Krai is divided between the territories of settlements.

In addition to the single normative rates for the taxes envisaged in federal legislation, for the year 2005 additional normative deductions from the personal income tax, the profits tax, the tax on property of organizations, and the single tax levied within the framework of the simplified system of taxation were established, to be transferred to local budgets. These normative rates were differentiated, and they were assigned to the municipal raions, city okrugs and some settlements in four raions of the Krai: Izobil'nenskii, Krasnogvardeiskii, Sovetskii and Shpakovskii.

Interbudgetary transfers in 2005 were allocated to local budgets in accordance with Krai Law of 31 December 2004, No. 117-KZ, "On interbudgetary relations in Stavropol Krai". The main types of interbudgetary transfers were as follows:

- dotations from the Krai Fund for financial support of settlements;
- dotations from the Krai Fund for financial support of municipal formations (or city okrugs);
- dotations from the Krai Fund for balancing local budgets;
- subsidies from the Krai Fund for co-financing of social expenditures;
- subsidies from the Krai Fund for reforming of municipal finances;
- subventions from the Krai compensation fund.

As seen from this list, in Stavropol Krai it was decided that settlements should be equalized from the regional level. As a result, within the

framework of the krai budget, both the Fund for financial support of municipal formations (or city okrugs) and the Fund for financial support of settlements were created.

The dotations to settlements were allocated per capita, while those to municipal raions and city okrugs – by the principle of equalizing the calculated budget sufficiency levels. It should be noted in this connection that the regional methodology for calculating the levels of budget sufficiency of municipal formations is one of the examples of best practices in this sphere. In contrast to the majority of other regions in the RF, where the index of budget expenditures is based on the real expenditures of local budgets in a previous financial year, in Stavropol Krai upward coefficients are applied, which take into account the growing costs of municipal services and the objective conditions existing on the territories of municipal formations and influencing the volume of municipal expenditures. The information concerning the upward coefficients and the indices that are the basis for the calculation of these coefficients is shown in *Table 4.6*.

Table 4.6

Upward Coefficients Applied in Calculating the Index of Budget Expenditures in Stavropol Krai

Upward Coefficient	Index
coefficient of scale	number of permanent residents
coefficient of population dispersion	percentage of permanent residents in population units where total number of population is less than 500
coefficient of urbanization level	percentage of urban population
coefficient of population's age structure	percentage of population aged below and above employment age, in total number of permanent residents
coefficient of cost of utilities for budget-funded institutions	tariffs on utilities for budget-funded institutions (heating, water supply, electric power supply)

Source: Krai Law of 31 December 2004, No. 117-KZ, "On interbudgetary relations in Stavropol Krai".

In order to prevent dramatic changes in the size of revenues of local budgets as a result of the transition to the new principles of distributing financial support and, as a consequences, their becoming imbalanced, the

Krai Fund for balancing local budgets was created in 2004 in Stavropol Krai. The size of the Fund is annually approved by the Krai Law on budget, while the procedure for distributing the Fund's resources in 2005 was approved by Decree of the Government of Stavropol Krai of 16 February 2005, No. 23-p, "On the approval of the procedure for the allocation of and the sizes of dotations from the Krai Fund for balancing local budgets in the year 2005".

The recipients of dotations were the municipal formations of Stavropol Krai, the minimum necessary expenditures of which, when determined by the traditional method (based on the level of a previous year), were higher than the expenditures calculated by the new methodology. The dotations from the Fund for balancing local budgets were allocated in such a way that the volume of revenues in local budgets, with due regard for the forecasted receipts of tax and non-tax revenues and non-target transfers, was to cover no less than 95% of the volume of the minimum necessary expenditures of a local budget calculated by the traditional method.

In accordance with this procedure, dotations were to be allotted in two stages: 70% during the period between 1 January and 1 December 2005, and the remaining amount – in December 2005. The size of dotations could be adjusted in accordance with the degree to which each of the municipal formations had implemented the measures aimed at balancing their local budgets, as well as depending on the execution of the local budgets' expenditures. Therefore, when the actual revenues of a given budget in a current year were higher than the planned indices, the dotations from the Fund for balancing local budgets were cut accordingly.

It should be noted that the dotations thus allotted from the Fund for balancing local budgets, indeed, enabled the bodies of local self-government to form well-balanced budgets for the year 2005, but did nothing to promote the activity of local authorities aimed at developing their own policy of restructuring the budget-funded sphere, improving the efficiency of local budgets' expenditures, and developing their tax base.

In addition to non-targeted transfers, in 2005 the local budgets also received subsidies from the Krai Fund for co-financing of social expendi-

tures. The main areas where the resources of this Fund were being spent are as follows:

- the compensation of the costs of the organizations in the housing and utilities complex and gas suppliers associated with the granting of subsidies to citizens to cover their housing and utilities fees (16.9% of the Fund's size).

It should be noted, however, that the distribution of resources from this Fund was not properly regulated. In the Law "On interbudgetary relations..." it is established that the selection of the municipal formations in Stavropol Krai entitled to subsidies from the Fund for co-financing of social expenditures and the distribution of these subsidies between municipal formations is to be done in accordance with a single methodology, approved by the Government of Stavropol Krai in coordination with the State Duma of Stavropol Krai. However, until mid-2005 no such methodology was adopted, though the Fund for co-financing of social expenditures had been envisaged as part of the Krai budget not only in 2005, but also in 2004.

The Krai Fund for reforming of municipal finances is to be formed from the resources of the Krai budget and the subsidies from the Fund for reforming of regional finances. In 2005, the Fund's resources were being distributed between all types of municipal formations: approximately 56% of the Fund was allotted to reforming the municipal finances of city okrugs, and approximately 27% of the Fund – to reforming the finances of municipal raions. The remaining 16% of the Fund was spent on creating incentives to the settlements of Stavropol Krai to achieve better indices in the quality of their management of municipal finances¹²².

The selected state powers transferred to the municipal level by Krai laws were financed from the subventions from the compensation fund.

The Fund for municipal development, whose existence is envisaged in the Law of Stavropol Krai "On interbudgetary relations...", was not formed in 2005.

¹²² Main directions for reforming municipal finances, the Provision concerning the Fund, the Provision concerning the tender of programs for reforming, and other necessary documents are approved by Decree of the Government of Stavropol Krai of 9 June 2003, No. 102-p, "On reforming municipal finances in Stavropol Krai".

The formation of interbudgetary relations for the year 2006 was already governed by new regional legislation in this sphere, in particular by Law of Stavropol Krai of 21 November 2005, No. 55-KZ, “On interbudgetary relations in Stavropol Krai”. This Law established the principles for consolidating additional tax and non-tax revenues to the local budgets at the regional level, determined the types of interbudgetary transfers and the terms for their granting, regulated the issues relating to the formation and spending of the Fund’s resources as part of the Krai budget, as well as approved the methods for calculating the different types of transfers.

By the Law it was established that, in addition to the revenues consolidated to them by federal legislation, the revenues from regional taxes were to be transferred to the budgets of municipal raions and city okrugs, namely the tax on property of organizations and the transport tax. The deductions from these taxes to municipal budgets were to be executed in accordance with a single normative rate. Besides, it was allowed to introduce differentiated normative deductions from federal and regional taxes, to replace dotations from the Funds for financial support of municipal formations.

The size of the normative rates additionally established at the Krai level was approved by Law of Stavropol Krai of 30 December 2005, No. 80-KZ¹²³, whereby it was established that, from 1 January 2006, the following revenues were to be transferred to the budgets of municipal raions and city okrugs:

- the personal income tax – at the normative rate of 10%;
- the single tax levied within the framework of a simplified system of taxation – at the normative rate of 50%;
- the tax on property of organizations – at the normative rate of 10%;
- the transport tax – at the normative rate of 50%.

Besides, by this Law, differentiated normative deductions from the following taxes were established:

¹²³ Law of Stavropol Krai of 30 December 2005, No. 80-KZ, “On establishing single and additional (differentiated) normatives for the deductions, to the budgets of municipal raions of Stavropol Krai, of federal and regional taxes, and the tax envisaged by the special tax regime, which are subject to transfer to the budget of Stavropol Krai in accordance with the Tax Code of the Russian Federation”.

- the personal income tax (8 municipal raions and 5 city okrugs, the size of the normative rate being from 7.8% in Kochebeevskii municipal raion to 44.5% in Shpakovskii municipal raion);
- the single tax levied within the framework of a simplified system of taxation (in the towns of Georgievsk and Yessentuki, at the normative rate of 40%);
- the transport tax (in Andropovskii and Izobil'nenskii municipal raions, at the normative rate of 50%);
- the tax on property of organizations (in Petrovskii municipal raion, at the normative rate of 70%);
- the profits tax (in the town of Nevinnomyssk, at the normative rate of 5.9%).

No additional normative rates for the budgets of settlements were established.

As in 2005, in 2006 the equalization of settlements was executed from the regional level; besides, it was envisaged that raion Funds for financial support of settlements were also to be created in the Krai. By the Law “On interbudgetary transfers...”, the methodology for calculating the dotations from the raion Funds for financial support of settlements was approved. It was envisaged that subsidies from the Fund for co-financing of social expenditures were to be allotted to municipal raions for the formation of their own funds for financial support of settlements. To cover these subsidies, by the Law on the 2006 budget it was envisaged that approximately 70% of the resources of the Fund for co-financing of social expenditures was to be earmarked for such purposes.

It should be noted that, in contrast to the previous periods, in 2006 the subsidies from the Fund for co-financing of social expenditures were being distributed in accordance with the methodologies described in the annex attached to the Law on budget. The Krai's priorities in the sphere of co-financing the expenditures of local budgets had changed noticeably. As was already mentioned, the main bulk of the Fund's resources was allotted to the co-financing of the expenditures of the budgets of municipal raions earmarked for the formation of their funds for financial support

of settlements. Other most important items, to which the Fund's resources were allotted, were the compensation for the costs of the organizations of the housing and utilities complex and gas suppliers associated with the granting of subsidies to citizens to cover their housing and utilities fees (approximately 8% of the Fund), and the expenditures on the compensation of the growing cost of housing construction being borne by housing-construction cooperatives (approximately 6% of the Fund).

In 2006, certain changes were introduced into the methodology for calculating the dotations from the Krai Fund for balancing local budgets. In accordance with the regional Law "On interbudgetary relations...", the dotations from Fund are to consist of two parts:

- the dotation to compensate for the losses in the budgets of municipal raions (or city okrugs) that may occur as a result of the transition to the new system of organization of interbudgetary relations;
- the dotation to compensate for the losses in the budgets of municipal formations that may occur as a result of unforeseen reductions, during a financial year, in the volume of revenues of local budgets or the growth of their spending obligations.

As in the previous periods, the purpose of dotations from this Fund is to achieve good balancing of local budgets, or, in other words, to provide financial coverage for the differences between the forecasted and actual levels of revenues in local budgets, in accordance with the new system of distributing financial aid and the level of their expenditures. However, under the new methodology, the first part of dotations is allotted to local budgets every month and cannot be changed throughout a whole year, while the second may be adjusted depending on the implementation, by municipal formations, of the measures designed to ensure good balancing of local budgets, as well as on the actual execution of their budgets' expenditures.

By the Law "On interbudgetary relations...", negative transfers from municipal budgets to the Krai budget were also introduced. In 2006, negative transfers have been paid by the city – health resort of Piatigorsk and the city of Stavropol.

4.2.3. Tver Oblast

In the pre-reform period, on the territory of Tver Oblast there existed a raion model of the organization of local self-government, under which municipal formations had been created in five cities and towns (Tver, Torzhok, Rzhev, Kimry, and Vyshnii Volochek) and in 36 administrative raions.

In contrast to Novosibirsk Oblast and Stavropol Krai, the authorities of Tver Oblast decided that they would not move ahead of the schedule established for implementing reform of local self-government by Federal Law No. 131-FZ. As a result, in January 2005 the Law of Tver Oblast of 18 January 2005, No. 4-ZO, “On establishing the borders of municipal formations and endowing them with the status of city okrugs, municipal raions” was adopted. By this Law, the status of city okrugs was granted to the five cities and towns previously existing in the status of municipal formations, while the borders of municipal raions were made identical to the borders of 36 administrative raions.

In late February, the decisions concerning urban and rural settlements were adopted. As a result, 362 municipal formations were created in the Oblast, including 318 rural and 44 urban settlements. It should be noted that when the borders of settlements were being established, the main focus of attention was placed on the sufficiency of social infrastructure and adequate economic base on these territories. Therefore, the number of newly created settlement-level municipalities in the oblast is much lower than that of the previously existing submunicipal structures¹²⁴.

In mid-April 2005, by an Oblast Law the terminology to be applied to the bodies of local self-government was established¹²⁵, which are to be named as follows:

- Representative bodies:
 - in city okrugs – “the Duma”;

¹²⁴ Concerning the strategy of the bodies of state authority of Tver Oblast for establishing the borders of municipal formations, see Starodubrovskaya I. et al.. *Problemy reformy mestnogo samoupravleniia. Strukturnyie i finansovye aspekty.* (Problems faced by reform of local self-government. Structural and financial aspects). – M.: IET, 2005, pp. 298–300.

¹²⁵ Law of Tver Oblast of 14 April 2005, No. 61-ZO, “On establishing the names of the bodies of local self-government of municipal formations in Tver Oblast”.

- in municipal raions and settlements – “the council of deputies”.
- Heads of city okrugs, municipal raions and settlements – “the head”;
- Executive bodies – “the administration”.

In addition, in late April another Law was adopted, which regulates the structure of the bodies of local self-government in the newly created municipal formations and the number of deputies in the representative bodies of the first convocation¹²⁶. The basic provisions of this law are as follows:

- The deputies to the representative body of local self-government of the first convocation are to be elected by the population on the basis of universal suffrage, by direct voting and secret balloting.
- The heads of newly created municipal formations are to be elected for their first period of office by the representative bodies from among their members by secret balloting.
- The period of power for the representative bodies and heads of municipal formations is 3 years.
- The head of a municipal formation is to chair its representative body; the head of a local administration is to be appointed to that post by contract, with the exception of settlements where the population is less than 1000, in this latter instance the head of the municipal formation becomes simultaneously the chairman of the representative body and the local administration.
- The bodies of local self-government and the elective officials in the local self-government are to begin the execution of their powers for decision-making in respect to issues of local importance from 1 January 2006.
- The organizational and material-technical backing for the activity of the bodies of local self-government of settlements until 1 January 2006 is to be provided by the bodies of local self-government of municipal raions.

The elections of deputies to the representative bodies of newly created settlements were to be held on 2 October 2005. In order to ensure appro-

¹²⁶ Law of Tver Oblast of 28 April 2005, No. 72-ZO, “On the bodies and officials of local self-government of newly created municipal formations in Tver Oblast”.

ropriate preparation for the elections, an oblast law was adopted whereby the powers of the electoral boards of newly created municipal formations in respect to the organization and conduct of the elections to the bodies of local self-government of newly created municipal formations were delegated to the territorial electoral boards of Tver Oblast¹²⁷.

As a result, by mid-fall of 2005 the borders of municipal formations were determined, and the bodies of local self-government elected in Tver Oblast. It was intended that all the powers relating to issues of local importance would be transferred to them from 1 January 2006. The plans of regional authorities were, however, changed in late 2005 due to the adoption, at the federal level, of Law No. 129-FZ, whereby the transition period was extended until 1 January 2009, and certain changes were introduced in the procedure for the functioning of newly created municipal formations during the transition period.

In accordance with the requirements established in federal legislation, Law of 9 December 2005, No. 142-ZO, "On decision-making by bodies of local self-government of Tver Oblast of some issues of local importance of newly created settlements in Tver Oblast" was adopted in Tver Oblast.

This Law determined the list of those issues of local importance for settlements, which in 2006 were to be dealt with by the bodies of local self-government of municipal raions. By this Law, a total of 13 issues of local importance assigned to settlements were transferred to the raion level. Thus, nearly all the issues relating to the organization and provision of the services in the public sector, to which appropriate funding had been traditionally allocated in the local budgets, were transferred to raions. In particular, the bodies of local self-government of raions are now responsible for the services of the HUS, cultural organizations, and library services to the population. Also to the raion level were transferred all the issues relating to ensuring the population's safety, namely the provision of primary measures of fire safety, the upkeep of salvage and rescue services, the protection of the population from emergency situations, etc. As

¹²⁷ Law of Tver Oblast of 28 April 2005, No. 62-ZO, "On providing for the preparation and conduction of elections to bodies of local self-government of newly created municipal formations in the territory of Tver Oblast".

a result, the main expenditure items in the local budgets at the level of settlements in 2006 are the upkeep of the bodies of local self-government and the expenditures on territory development. In some cases, when settlements have their own institutions for physical culture and sports, they are allocated appropriate funding for their upkeep. At the same time, the expenditures on the upkeep of local self-government constitute more than 50% of total budgeting expenditures.

Besides, the Law consolidated to municipal raions a part of the budgeting powers of the bodies of local self-government of settlements, namely the powers for the formation and execution of local budgets, which was, in effect, a violation of the rights of local community to pursue its own independent municipal policy. This is associated with the fact that a budget must represent a political document reflecting the priorities of the municipal policy of a given settlement. The formation of a settlement's budget at the raion level results in a situation when this budget reflects the priorities of the raion authorities, and not those of the bodies of local self-government of settlements. As a result, the practice of "by-estimate" financing, previously existing in submunicipal structures, is being reproduced once again.

It should be noted that the powers to approve a budget and to control its execution are left to settlements; however, in actual practice the deputies of settlements, as a rule, treat the approval of the budget formed by the raion authorities as a formal procedure, granting their approval without offering any significant objections or changes. The Oblast Administration believes that this decision was a necessary measure, explained by the fact that the heads of local administrations in newly created municipal formations were to be appointed on the basis of a contest. The contests among candidates for these posts were held in December 2005. In such a situation, in the financial year 2006 no local administration had been formed, which had made nearly impossible the formation of local budgets by the bodies of local self-government of settlements.

In the Law "On decision-making by bodies of local self-government of Tver Oblast on some issues of local importance of newly created settlements in Tver Oblast", the possibility of agreements between raions and settlements for the transfer or a part of the latter's remaining powers

to the raion bodies of authority were envisaged. According to available information, in Tver Oblast the process of making such agreements was going on rather actively. The situation varies considerably between raions. In some instances, agreements were made with separate settlements in respect to those powers which could not, indeed, be executed by the latter due to lack of adequate personnel. However, more widespread was the practice of model agreements being developed by raion authorities, which were then to be signed, in a mandatory procedure, by all the settlement located within a given raion.

In addition to the division of issues of local importance between the two levels of municipal authority, by Oblast Law No. 142-ZO revenue sources were also divided, by establishing that all tax revenues were to be transferred into the raion budget, while to the budgets of settlements non-tax revenues and financial aid were to be transferred. Such a structure of revenues in the budgets of settlements makes the bodies of local self-government of settlements even more dependent on raion authorities, all the more so because the powers equalizing the levels of budget sufficiency of settlements were transferred to the raion level, too. It should be noted that initially, in order to provide financial backing for the decision-making, by raion authorities, concerning the issues of local importance, it had been intended that raion authorities should transfer to the raion budgets the income tax and a part of financial aid, while leaving local taxes and non-tax revenues to settlements. However, this proposal had not been supported by the Oblast Legislative Assemle.

In 2006, in the raions of Tver Oblast, the practice of transferring financial aid to settlements from the raion budgets in the form of subsidies, instead of dotations, has become quite widespread. Our analysis of the structures of revenues in the budgets of some settlements has demonstrated that the revenues from the lease of land never exceed 20% of the total revenues of local budgets. The remaining part of revenues is represented by gratis contributions from the budgets of other levels. In this connection it is noteworthy that the dotations for the equalization of the levels of budget sufficiency do not exceed 10% of the volume of gratis transfers. All the other receipts are subsidies.

By way of exception, on condition that certain procedures are observed, for some settlements a different procedure for dealing with the issues of local importance may be established. However, no such precedents have occurred so far.

The situation with the functioning of local self-government in Tver Oblast, as it exists today, is characterized by a considerable degree of concentration of both powers and financial resources at the raion level. Although, from the formal point of view, the activity of the bodies of local self-government is financed from the budgets, in actual practice the budgets of settlements in the oblast still retain many features typical of the estimates of revenues and expenditures. In particular, their budgets are formed at a higher level of authority and largely reflect the priorities of raions. Besides, their independent sources of revenues are negligible, and settlements to a very high degree depend on the financial aid being transferred from raions. The existing practice of transferring a substantial portion of financial aid in the form of targeted subsidies earmarked for specific issues, instead of dotations, makes it impossible for the bodies of authority of settlements to redistribute the funds between their items of expenditure depending on the actual needs of the population of certain territories.

Thus, the two-tier model of local self-government, which has been newly created in the Oblast, does possess the typical features of the previously existing raion model, the only difference being that at the settlement level the decision-making is executed by deputies elected by the population, and not by municipal officials appointed by raion authorities. It should be noted that in 2006 this situation was rather typical, and many RF subjects took advantage of their right to determine for newly created settlements the procedure for dealing with the issues of local importance during the transition period, having retained the highest possible volume of powers and financial resources at the level of municipal raions.

4.2.3.1. Reform of Interbudgetary Relations

Alongside the changes in the territorial structure, reform of local self-government should also involve radical transformations in the mechanism of providing financing to municipal formations: the consolidation of revenue sources to them on a permanent basis, the redistribution of finan-

cial aid on the principle that budget sufficiency should be equalized, etc. Tver Oblast represents one of the very few regions where the new financial principles have been applied to interbudgetary relations since 2005. The appropriate financial mechanism has been tested at the level of raions and towns, that is, in those municipal formations that existed as of early 2005.

In accordance with the new approach, the revenue sources consolidated to municipal formations for the year 2005 were approximated to the maximum degree to those envisaged in the amendments introduced in the Tax and Budget Codes. The exception was represented by the normative deductions from the agricultural tax and the income tax. The normative rate established for the agricultural tax was 90%, while the Budget Code envisaged that only 60% of the revenues generated by that tax were to be transferred to local budgets. However, considering the negligible number of those agricultural enterprises that have actually switched over to the payment of the agricultural tax, the difference in the rates of normative deductions established for this tax has very little influence on the level of revenues in local budgets.

In respect to the income tax, the Budget Code envisages the consolidation of 30% of the related revenues to local budgets, while a region is obliged to consolidate 10% of the revenues generated by this tax and transferred to the consolidated regional budget in the form of single of additional normative deductions. In Tver Oblast, by the Law on the 2005 budget, 25% of the revenues from the income tax were consolidated, and an additional 15% was distributed in the form of per capita transfers.

The dotations from the Fund for financial support of municipal formations, distributed in the oblast throughout the year 2005, consisted of two parts, one of which was being distributed in proportion to the number of the population in a municipal formations, while the other was earmarked for the equalization of budget sufficiency. The first part was fully replaced by the normative deductions from the personal income tax being transferred to the budgets of municipal formations. The additional normative rate, consolidated for the period of the year, varied between 8.53% in Udomelskii raion to 53.46% in Molokovskii raion. The second part of dotations was determined on the basis of estimated budget sufficiency,

with due regard for the tax potential of each municipal formations and the index of budget expenditures. The equalization of budget sufficiency was to achieve the target level, which roughly corresponded to the average level of budget sufficiency in Tver and was by 1.25 higher than the region's average budget sufficiency prior to financial equalization.

Since the new approach to the distribution of financial aid results in some rather important financial shifts, with potential negative consequences for the budget-funded sphere of some municipal formations, a stabilization fund was created in the Oblast. In accordance with Oblast Law of 12 November 2004, No. 63-ZO, "On the Fund for municipal development of Tver Oblast", the purpose of the stabilization fund is to ensure adequate balance of the revenues and expenditures of municipal formations throughout the period of reforming interbudgetary relations in Tver Oblast. The fund has been established for the period of 5 years (until 2010), its resources being allotted to municipal formations in the form of dotations. The methodology for the distribution of the fund's resources is to be determined every year by the law on the oblast budget.

For the year 2005 the fund was formed with regard for the necessity to keep, in 2005, the revenues in each local budget at a level of no less than 92% of the planned revenue level for the year 2004.

In addition to the dotations earmarked for the compensation for the lowered revenues of local budgets, the resources from the stabilization fund in 2005 were also allocated to the the following purposes:

- the payment of dotations the budgets of municipal formations of Tver Oblast in order to raise the level of salaries of the employees in the budget-funded sphere of the municipal formations of Tver Oblast;
- the payment of dotations for the conduct of elections of officials in the newly created urban and rural settlements within municipal formations;
- the compensation of expenditures associated with the reorganization of the administrative bodies responsible for the agroindustrial complex;
- the payment of dotations to redeem the ourstanding debts against the budget credits (or loans) granted from the oblast budget.

In addition to the stabilization fund, from the year 2005 the Fund for Municipal Development (FMD)¹²⁸ and the Fund for Co-financing of Social Expenditures (FCSE)¹²⁹ were formed in Tver Oblast.

The Fund for municipal development was created for purposes of shared financing of the investment programs and projects, aimed at developing social infrastructure of municipal importance. The Fund's resources are distributed on the basis of a tender, for the participation in this tender all the projects and programs being accepted where the share of financing from municipal budgets is envisaged as being no less than 10% of their total cost. The priority areas, where such financing during the year 2005 was to be implemented, were as follows:

- investments in capital assets, by sectors: public education (9.8% of the Fund)¹³⁰, public health care system and sports (15.7%), culture (1.1%), HUS and gas supply systems (32%), housing construction (23.2%), and other sectors (2,3%);
- modernization and technological reequipping of objects belonging to the "culture" sector (0.7%);
- repairs and restoration of objects of historical and cultural heritage (0.5%);
- modernization of capital assets in the sector "public health care system" (1.8%);
- implementation of measures aimed at technological reequipping (or capital repairs) of objects belonging to the housing and utilities sphere (12.8%).

The Fund for co-financing of social expenditures is earmarked for shared financing of the social expenditures of municipal formations in priority areas. The list of the directions for the spending of the Fund's resources is to be annually determined by the law of oblast budget.

The resources from the Fund are distributed for each of these directions, between the municipal formations of Tver Oblast, in proportion to

¹²⁸ Law of Tver Oblast of 12 November 2004, No. 63-ZO, "On the Fund for municipal development of Tver Oblast".

¹²⁹ Law of Tver Oblast of 12 November 2004, No. 62-ZO, "On the Fund for co-financing of social expenditures of Tver Oblast".

¹³⁰ In brackets, the share of the fund's resources earmarked for distribution between projects and programs for each priority area of expenditures is shown.

the numbers of recipients of the budget-funded services corresponding to each of the co-financed items of expenditure, adjusted by the following parameters:

- the difference in the cost of each of the budget-funded services between the different municipal formations in Tver Oblast;
- the difference in the local budgets' potential to provide adequate financing of a given item of expenditure from their own resources.

In 2005, 11 directions for spending the resources from the Fund were determined, the most important among them being as follows:

- subsidizing for the expenditures of municipal formations of Tver Oblast on the granting of dotations to the services provided to the population by heat suppliers, – 42.70% of the Fund¹³¹;
- subsidizing for the expenditures of municipal formations of Tver Oblast on ensuring the functioning of the institutions in the socio-cultural sphere – 30.35% of the Fund;
- subsidizing for the expenditures of municipal formations of Tver Oblast on maintaining the road systems of municipal formations – 18.97% of the Fund.

Potentially, the Fund for co-financing of social expenditures may serve as an instrument designed to somewhat alleviate the problems associated with the transition to the new system of financial equalization. The existing possibilities for using the resources of this Fund are rather wide (10 directions for the co-financing of expenditures having been established). However, for the resources from this Fund to be actually allocated, it is required that municipal formations also invest their own budget resources, and so there exist some doubts as to the capability of the least wealthy municipalities to apply this instrument to its full capacity.

In addition to the aforesaid Funds, the Fund for reforming municipal finances was created in the Oblast, from which resources have been allotted to municipal formations for implementing the program of reform in the financial sphere.

¹³¹ These resources may, in part, be allocated by municipal formations to the redemption of accounts payable for the year 2004 against the dotations to services provided to the population by heat suppliers.

In 2006, the regulation of interbudgetary relations has been determined by Law of Tver Oblast of 26 July 2005, No. 94-ZO, "On interbudgetary relations in Tver Oblast". In accordance with this Law, all the aforesaid Funds were supplemented by the Fund for financial support of municipal raions and city okrugs and the Fund for financial support of settlements. Also, there has been envisaged the creation of raion funds for financial support of settlements.

The Fund for financial support of municipal raions and city okrugs, similarly to that in the year 2005, consists of two parts. The first part is distributed by the per capita principle. The second is allocated in order to equalize the estimated budget sufficiency. The size of the Fund's first part is equal to 9% of the revenues from the personal income tax in the consolidated budget of Tver Oblast received in 2006. The dotations from the first part, just as in the year 2005, are fully replaced by the normative deductions from the personal income tax.

The size of the Oblast Fund for financial support settlements in Tver Oblast in 2006 is to be equal to 1% of the forecasted receipts of the personal income tax transferred to the consolidated budget of Tver Oblast. The dotations from the Fund are distributed by the per capita principle. In 2006, a part the dotations was transferred to municipal raions for purposes of resolving the issues of local importance of settlements transferred to them by Oblast Law No. 142-ZO.

The terms for the allocations from the stabilization fund have also been somewhat changed. In the year 2006 it has been planned to provide compensation to the consolidated budgets of municipal raions and city okrugs of Tver Oblast for their lost revenues to a level that should not be lower than 65% of the comparable planned level of basic revenues of those same municipal formations in 2005. Thus, the size of compensations from this Fund is gradually being diminished, with no schedule having been established for this decline.

In 2006, no other payments from the stabilization fund have been envisaged, beside the dotations to ensure that the revenues of municipal raions and city okrugs are kept at a level of no less than 65% of the planned level of basic revenues of these municipal formations in 2005.

The distribution of the resources from the Fund for municipal development and the Fund for co-financing of social expenditures has also been changed. In particular, in 2006 it is planned to allocate subsidies from the Fund for municipal development to purchases of the motor vehicles necessary for bringing students to educational establishment for general education (1.4% of the Fund) and for capital repairs of hydro-technical facilities (1.1% of the Fund).

In 2006, within the framework of the Fund for co-financing of social expenditures, certain resources have been earmarked for 12 items of expenditure of municipal formations. The most important areas of expenditure for the allocation of the Fund's resources are as follows:

- subsidizing for the expenditures of municipal formations of Tver Oblast on the functioning of institutions in the socio-cultural sphere – 60.91% of the Fund;
- subsidizing for the expenditures of municipal formations of Tver Oblast on raised salaries of the employees of the institutions belonging to the budget-funded sphere – 14.40% of the Fund;
- subsidizing for the expenditures on the implementation of the Law of Tver Oblast “On providing adequate nutrition to children under three years of age, pregnant women and breastfeeding mothers” – 2.61% of the Fund.

Besides, the Fund for reforming municipal finances is also being created in the Oblast.

4.3. The Practices of Implementing Municipal Reform in Pilot Regions

4.3.1. Novosibirsk Oblast

4.3.1.1. General Conditions for the Implementation of Reform

Novosibirsk Oblast is one of the pioneers in implementing municipal reform. At the same time, it should be noted that, in the Oblast, the reforming in 2005 was by no means full-scale. Indeed, in accordance with Law No. 131-FZ, the territorial foundations for local self-government were laid, as well as the bodies of local self-government were created.

The division of issues of local importance between municipal raions and settlements was approximated to the appropriate provisions in federal legislation. But at the same time, no issues of local importance other than those listed in legislation were mentioned in the charters of municipal formations.

However, in the sphere of financial relations the reforming was going on on a much smaller scale. In 2005, to the majority of municipal formations the deductions from taxes envisaged in the amendments to the Budget Code were consolidated (the exception being represented by the workers' settlement of Koltsovo, to which additionally the deductions from the tax on profit of organizations were consolidated). However, the reforming of financial relations was limited only to these changes. Novosibirsk Oblast did not take advantage of the possibility to establish additional normative tax deductions at the regional level. Interbudgetary relations were based on the transfers of dotations from the regional budgets to cover the difference between forecasted revenues and expenditures of municipal formations, no real mechanisms for equalizing the levels of budget sufficiency were implemented. As for developing certain instruments for regulating interbudgetary relations, such as the Fund for co-financing of municipal expenditures and the Fund for municipal development, no attempts were made in that direction, either.

One more gap in the process of implementing municipal reform resulted from the lack of proper coordination between the powers granted to municipal formations of different levels, as well as between their spending obligations and the processes of property division. As has been pointed out previously, even the list of spending powers determined by the Oblast's legislation turned out to be broader than the list of issues of local importance. At the same time, in some instances the objects of property owned by settlements, raions, and especially by the Oblast, could be financed "in shares" by the bodies of regional and municipal authority of different levels. Although the existence of this problem may, in all probability, be explained by the complexities peculiar to the transition period, it did produce a certain impact on the way the municipal formations were functioning in the Oblast.

Consequently, as far as the assessment of the experience of pilot implementation of municipal reform in Novosibirsk Oblast is concerned, one way of approaching this task could have been to focus on the issues of reforming the territorial structure of local self-government, the results of municipal elections and other aspects of local self-government organization, as well as on the division of powers, because it is in this spheres that the new provisions stipulated in federal legislation had been realized most consistently. However, in the context of the present study, the reforming of territorial structure in Novosibirsk Oblast could hardly present a worthy subject of analysis, because it did not, in fact, result in any changes of the borders or of the status of municipal formations. As of 1 January 2003, in the Oblast there existed 460 municipal formations, of which 6 were cities and towns of oblast importance. In course of municipal reform, the number of municipal formations increased to 490 because, instead of the former 30 territorial raion bodies of state authority, 30 municipal raions were created. Judging by the results of reform, presently in Novosibirsk Oblast there are 30 municipal raions, 5 city okrugs, 26 urban settlements and 429 rural settlements. Two cities of oblast importance – Kuibyshev and Barabinsk – were not granted the status of a city okrug, and for financial reasons were included instead into municipal raions. At the same time, the workers’ settlement of Koltsovo did receive the status of a city okrug, because it is a “science city”.

4.3.1.2. Reform of the Organizational Foundations of Local Self-government

Novosibirsk Oblast was one of the first regions where election to the local bodies of authority were held, this election taking place in December 2004. The results of the election are interesting from the point of view of how “the human factor” may influence all the subsequent functioning of municipal formations under conditions of municipal reform.

Among the 30 newly elected heads of municipal raions, 22 had previously chaired the territorial raion bodies of state authority, while another two worked at those bodies, while not being top officials there. The remaining 6 persons who had come “from the outside” had previously been entrepreneurs or directors of industrial or agricultural enterprises. Among the heads of settlements, approximately two-thirds have kept their former

positions, while one-third were replaced. The new heads of settlements belonged to a variety of professional and social categories – they had been teachers and directors of secondary schools, agronomists, farmers or other types of entrepreneurs, or unemployed. At the oblast level it has been estimated that, among the heads of settlements, 10% had come to occupy these posts as a result of protest voting and were incapable of adequately performing their duties. Approximately one-third among the elected top officials are without higher education, this percentage being on the average the same among both the reelected and the newly elected officials.

In the Oblast, prevailing is the model of the organizational structure, where the head of a municipal formation is elected at a general election and then chairs the local administration or, if it is a rural settlement, both the representative body and the local administration. The head of local administration is employed by contract only in 6 rural settlements. At the same time, according to the information obtained from the Oblast Administration, the heads of settlements did express their interest in implementing the latter model, instead of the former. Some of them posed as candidates during the elections of heads of municipal raions and, in an event of a failure, wanted to secure the top administrative post in a settlement, to fall back onto.

Novosibirsk Oblast, due to the specificity of its territorial structure prior to the onset of reform, is one of those very few regions where, as a result of reform, the number of administrative staff became smaller, instead of having increased. According to the information made available by the Oblast Administration, at the level of urban and rural settlements the number of administrative staff, on the whole, remained unchanged, while at the level of raion administrations it was reduced approximately by one-quarter (or by 23%). The number of municipal staff in the administrations of settlements is regulated at the regional level depending on the number of the population in each municipal formation, varying across the Oblast between 4 and 15, the average number being 6–7¹³². However, the top officials of some municipal raions have insisted that the number of

¹³² Number of technical personnel is, as a rule, set at the level of 50% of the total number of municipal staff.

administrative staff at the settlement level did actually increase, due to the addition of the posts of an official responsible for HUS and the one responsible for land utilization. At the same time, the heads of settlements with low numbers of administrative staff have complained of shortage of appropriate staff needed for the execution of all their powers.

4.3.1.3. Division of Powers

When estimating the results of the division of powers between municipal raions and settlements in the Oblast, it should be noted that, in contrast to those RF subjects where the raion structure of municipal formations prevails, in this particular case the list of issues of local importance at the settlement level has actually been made shorter, instead of longer. Thus, the settlements in Novosibirsk Oblast had previously dealt with the organization of the functioning of first-aid and tocological stations (FMU), kindergartens, and in some instances – with organizing supplementary training, emergency medical care, as well as the issues of trusteeship and guardianship. In accordance with the new division of powers, the settlements had to transfer into the ownership of municipal raions, among other property, also those objects that had been constructed with the participation of the population.

At the same time, many functions in the sphere of education, public health care, culture, HUS, etc., which under existing legislation and in accordance with prevailing practice had been consolidated to municipal formations, were in this case centralized at the Oblast level. The execution of these functions was the responsibility of the territorial bodies of state authority of those raions which, in course of reforming, became the base for creating the municipal formations of the raion level.

Consequently, the experience of implementing municipal reform in Novosibirsk Oblast is of interest, in the first place, because it has demonstrated that it can be possible, under certain conditions, not to limit but, on the contrary, to expand the sphere of competence assigned to the municipalities at the settlement level. The main powers which, by a rather unanimous opinion expressed by the top officials of the Oblast's settlements, must be transferred to the settlement level, are as follows:

- current upkeep and repairs of educational establishments;

- current upkeep and repairs of the institutions in the public health care system;
- the organization of pre-school education;
- the organization of supplementary training;
- the organization of emergency medical care services.

It is noteworthy that nearly all among the top officials of settlements participating in the survey settlements insisted on the transfer of the first two powers, while on the transfer of the last two – only the heads of the most “strong” settlements. In this connection, the heads of settlements claimed that the directors of all such institutions located on their territories appeal to them in respect to all issues relating to upkeep and repairs. And, since these institutions provide services to the population of a given settlement, the head of that settlement has to allocate some funding to satisfy their needs, if the raion authorities do not, because, for example, it is absolutely necessary that a local school to be opened by the 1st of September, or to repair the leaky roof of the local FATS, etc. The substantiation for the transfer to the settlement level of the services of emergency medical care was that it was necessary, within the shortest possible period of time, to resolve such issues arising in that sphere issues. According to the head of one of the settlements in Novosibirsk raion, if an issue is centralized at the raion level, any decisions, in an event of a disruption in the smooth operation of a local emergency medical care service, will be made no earlier than within two weeks, the population being deprived of those services for the whole of that period. Therefore, speedy decisions must be made at the level of settlements. In another settlement it was noted that, as a result of the transfer of the powers for organizing emergency medical care to the raion level, this service had become less available for the population.

The heads of settlements also expressed their negative opinion of the practice of centralized purchase orders at the Oblast level in the sphere of HUS, which was, in fact, mandatory. The most negative estimation was given to the purchases of coal, the monies for it being withdrawn to the centralized pool nearly six months before the beginning of the heating season.

As for the powers of settlements being redistributed in favor of municipal raions, in Novosibirsk Oblast the most acute problems arose in this connection in the sphere of culture. The Oblast Administration insisted that a number of powers and objects of property in this sphere should be kept at the raion level. These were, first of all, library services to the population (and, accordingly, the centralized library systems), large-size houses of culture, and raion museums. As a proof of the existence of such a necessity, they referred to the story that in one of the settlement-level municipalities its head planned to house the municipal administration in the building of a raion museum being transferred to that settlement.

In fact, the standpoint shared by the administration of Novosibirsk Oblast was reflected in federal legislation, namely in Law No. 199-FZ adopted on 31.12.2005, in accordance with which such issues of local importance were to be consolidated to the raion level as the organization of library services to the population by intersettlement libraries, as well as the creation of appropriate conditions for the provision of the settlements located within a municipal raion with the services for organized leisure and the services of cultural organizations. Municipal raions were granted the right to create raion museums. And although the inclusion of these issues of local importance into the sphere of competence assigned to municipal raions did not result in any formal changes in the list of property consolidated to them, in actual practice it provided the foundation for a number of cultural institutions to be left in the ownership of raions – not only in Novosibirsk Oblast, but also in some other regions.

Meanwhile, within Novosibirsk Oblast, its Department of Culture suggested that another mechanism for executing the raion-level powers in this sphere be introduced. Irrespective of the form of ownership assigned to a given cultural institution, a municipal raion may place a “social order” for this institution to organize raion-level cultural events. Consequently, it will be no more necessary to keep cultural institutions in the raion-level ownership. The most favorable conditions for this form of organizing services in the sphere of culture will emerge after the organizations providing such services to the population are transformed into

new organizational-legal forms (after the adoption of appropriate federal legislation).

4.3.1.4. Other Problems Associated with the Implementation of Municipal Reform

The remaining problems involved in the implementation of municipal reform, which are being discussed in Novosibirsk Oblast, are either of a temporary character and have been given rise to by the specific features of that Oblast, or, on the contrary, are of so universal a nature that they do not require any detailed analysis within the framework of this chapter. Among these problems, the following may be pointed out:

- The problem of insufficiency of the revenues consolidated to municipal formations. The normative deductions from taxes transferable to local budgets have become much lower, and accordingly the dependence of municipal formations on dotations has also increased. However, in raions there still exist one or two self-sufficient settlements. The roots of this problem, as well as the existing restrictions to its appropriate solution within the framework of the currently applied concept of municipal reform, are analyzed in detail in Chapter 1.
- The problem of how the debts of enterprises and budget-funded institutions should be dealt with in a situation when they are being transferred from one level of authority to another. In Novosibirsk Oblast, this problem is most acutely felt in the housing and utilities sector, where a crisis has developed. Evidently, there exist no universal solution to this problem, and it has to be considered differently in each individual case.
- The problem of an insufficiently high level of budget planning, which results in a subjective assessment of tax potential, necessary expenditures, etc. Thus, by the beginning of April 2005, the budgets of municipal formations in Novosibirsk Oblast had been executed in respect to their tax and non-tax revenues only in the amount of 12% to 35% of their planned levels.
- The problem associated with the switchover to new mechanisms of levying the land tax, which was given rise to by inadequate cadastre-based estimation of lands, as well as by the lack of proper boundaries between plots of land, which makes difficult the collection of the land

tax and results in huge tax losses. In 2005 the issue of irregular collection of this tax was especially acute, and settlements even had to negotiate with taxpayers the possibility of advance tax payments. However, in accordance with the Tax Code, from the year 2006 the payments of this tax have become more timely.

- The problem of organizational interaction with the tax service during the formation of budgets at the level of settlements.

4.3.2. Stavropol Krai

4.3.2.1. General Conditions for the Implementation of reform

The implementation of municipal reform in Stavropol Krai had many features in common with the reforming in Novosibirsk Oblast, but here it was of a more comprehensive character, because not only the territorial and organizational issues, but also the financial system itself was also involved. Thus, the range of issues, the analysis of which is interesting from the point of view of the further prospects of municipal reform, is somewhat wider.

The mechanisms for reforming the territorial structure in the Krai did not differ in any significant way from those applied in Novosibirsk Oblast, because in Stavropol Krai in the pre-reform period the settlement model had also been prevalent, while at the raion level the territorial subdivisions of the bodies of state authority were functioning. Therefore those subdivisions were liquidated, with the creation of 25 municipal raions. The necessity to create settlements was felt only on the territory of raion Mineralnye Vody. However, even in a situation when the territorial changes were of such a limited scope, some conflicts developed. This was mainly characteristic of cities and towns of kraï importance, with adjoining rural municipal formations. Conflicts were associated both with the borders and the status of municipal formations, primarily when the issue as to granting the status of a city okrug to the cities and towns located on the territories of municipal raions was being discussed. In some cases such conflicts had to be resolved in a judicial proceeding.

Resulting from the reform of territorial structures, presently in the Krai there exist 330 municipal formations, of which 9 are city okrugs, 26

are municipal raions, 14 urban settlements and 281 rural settlements. 25 municipal raions and 15 settlements are newly created municipal formations. The status of city okrugs was granted to all cities and towns of krai importance.

4.3.2.2. Reform of the Financial Foundations of Local Self-government

At a first glance, it may seem that the approach to reforming the financial mechanisms in Stavropol Krai was much more comprehensive and better substantiated than that in Novosibirsk Oblast. Indeed, the set of financial instruments being applied in the Krai is characterized by a higher degree of complexity and differentiation. Thus, the Krai preserved its practice of establishing additional (differentiated) normative rates of deductions from a variety of taxes (and not only from the personal income tax) as part of financial aid, and from 2006 also the normative tax deductions, at a single rate, to the budgets of municipal formations at the regional level have been in operation. The mechanism of co-financing of municipal expenditures through the Fund for co-financing of social expenditures has been introduced, and the mechanism for the functioning of the Fund municipal development is being elaborated.

However, a more in-depth analysis of the mechanisms applied in the financing of municipal formations has demonstrated that, as a result of introducing the instrument of dotations from the stabilization fund, in 2005–2006, in fact, the covering of the deficit in local budgets still continued. Moreover, when during a financial year the amount of revenues was in excess of a planned target, the amount of dotations from the stabilization fund was lowered, which is quite contrary to the ideology underlying the new system of interbudgetary relations. Thus, even in Stavropol Krai the implementation of municipal reform in the financial sphere cannot be regarded as fully consistent.

Nevertheless, the scope of transformations was sufficient for the fundamental problem associated with reforming in this sphere to become evident – it was the dramatic growth in the dotation-dependency of municipal formations as a result of falling tax revenues. According to the information from the Krai's Governor, in 2005, as compared to 2004, the volume of financial aid to local budgets increased by 5.3 times; the num-

ber of municipal formations, whose budgets are formed mainly from financial aid and not from tax revenues, demonstrated a similarly dramatic growth¹³³. The existence of such phenomena has been fully confirmed by the heads of municipal formations.

The Krai's administration believed that the situation could be improved by establishing differentiated normative deductions, to be transferred, in the medium term, to the budgets of municipal formations instead of financial aid. These proposals were partly taken into account in Law No. 198-FZ of 27 December 2005, whereby amendments to this effect were made to the RF Budget Code.

As in Novosibirsk Oblast, in Stavropol Krai the problem of interaction with tax agencies during the formation and execution of the budgets of settlements is quite acute.

4.3.2.3. Reform of the Organizational Foundations of Local Self-government

The specific feature of Stavropol Krai is that the representative bodies of local self-government of municipal raions were formed there not on the basis of a direct election, but by means of delegating the representatives of settlements. At the same time, the head of a raion administration was employed by contract. Thus, nearly all the former top officials of state raion administrations have remained in power. In 20 raions, by the results of tenders, the former heads of the liquidated bodies of state authority are now in charge of the new administrations, and in another two raions – their first deputies. In three raions, the former heads of state administrations became the chairpersons of representative bodies¹³⁴.

The mechanism for forming the representative bodies of municipal raions in the Krai gave rise to heated discussions, and Krai legislation in the part regulating these issues was appealed against in a court of justice. There is already some evidence that whenever such a model exists (and

¹³³ Materialy seminara-soveshchianiiia 'O khode realizatsii polozhenii Federal'nogo zakona ot 6 oktiabria 2003 goda No. 131 "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniia v Rossiiskoi Federatsii" v 2005 godu v Stavropol'skom kraie'. (Materials of a seminar-meeting 'Concerning the process of implementing the provisions of Federal Law of 6 October 2003, No. 131-FZ, "On general principles of the organization of local self-government in the Russian Federation" in the year 2005 in Stavropol Krai'). 20–23 April 2005. Stavropol. P. 22.

¹³⁴ Ibid, p. 21.

this is confirmed by international practice), the deputies of a representative body are inclined to deal primarily with the issues faced by their own settlements, and not with the more general problems faced by a whole raion¹³⁵.

Judging by the information obtained in the Krai, despite the formation of the raion representative bodies by means of delegating, the budgets of municipal raions are still being formed in such a way as they would have been formed in an event of direct elections, that is, settlements do not transfer to raions any subventions for the raion issues of local importance to be dealt with. Thus, the practices in Stavropol Krai have once more confirmed the lack of proper regulation, by federal legislation, of the mechanisms for implementing the model for forming raion budgets that envisages the transfer of subventions from the budgets of settlements as backing for a certain part of issues of local importance.

As for city okrugs and settlements, they apply a variety of models when creating their own system of bodies of local self-government. In urban settlements, in a vast majority of cases, the head of a municipal formation is elected at a general election and chairs the local administration. In rural settlements the heads of municipal formations are mostly elected by the population, with the elected head either chairing the local administration or combining the functions of the head of the representative body and the head of the local administration. The model whereby the head of a municipal formation chairs the representative body, while the head of the administration is employed by contract, has not become widespread at the settlement level in Stavropol Krai.

Although the territorial structure of local self-government in Stavropol Krai does not differ in any significant way from that existing in Novosibirsk Oblast, the Krai has seen no reduction in the number of administrative staff as a result of the transition from state administrations to the administrations of municipal raions. Moreover, at the municipal level there has emerged a trend toward a growth in this number, first of all due to the

¹³⁵ "To a certain extent... the deputies elected to the raion council from among the deputies of settlements, and to a greater extent the delegated heads, being tired of problems that have remained unsolved for years at the level of settlements, which are being tackled by each of them on his own, hope that they can be solved very quickly at the raion level." – Ibid, p. 48.

creation of the offices of the representative bodies of local self-government. The number of staff in local administrations at the level of settlements is much higher than a similar index in Novosibirsk Oblast. The average number of this staff in the Oblast is 12.2 employees, while in 17 of 25 raions their number is more than 10. There are also exist settlement where the number of staff in local administrations is as high as 28, 36, or even 42 persons. The level of education among the top officials of municipal formations is rather high – 85% of the heads of settlements have higher education.

4.3.2.4. Division of powers

Although the settlements in Stavropol Krai had sufficient experience, the practice if redistributing powers by agreements has become very widespread. In many instances, agreements were used as a convenient means for arranging the division of powers is the same way as it used to exist between the state territorial administrations and settlements before the onset of municipal reform. Therefore it was natural that settlements chose to transfer to municipal raions primarily their powers in respect to such issues of local importance as culture and leisure, physical culture and sports, library services to the population, as well as the powers in the sphere of housing and utilities. In some raions, the settlements also transferred their powers for the provision of primary measures of fire safety, as well as for the participation in the prevention and liquidation of the consequences of emergency situations within the borders of settlements.

However, the experience of Stavropol Krai in this sphere is quite valuable, in that the transfer of powers was directed not only from settlements to municipal raions, but also from municipal raions to settlements. Thus, in a number of raions to the settlement level the powers relating to pre-school education and, in part, supplementary training were transferred. In some cases, there also occurred the transfer of powers in the sphere of public health care system. One more interesting feature of Stavropol Krai's experience is that, despite the fact that the process of transferring powers within the framework of each municipal raion followed a rather uniform pattern (although there existed considerable variations between raions), there were also some settlements that could not be "persuaded" to transfer their powers to a raion. Thus, in this latter case, the

range of powers executed by settlements remained considerably larger than in all other cases.

Similarly to Novosibirsk Oblast, in Stavropol Krai the heads of settlements noted that they had to allocate funding also to those objects of infrastructure, which were not their property – schools, ambulatory clinics etc., because they could not let these objects become dysfunctional and thus deprive their voters of these types of services.

Many discussions going on in the Krai address the issue as to whom ultimately should belong the powers in the sphere of housing and utilities. Traditionally, many of these powers were concentrated at the Krai level, the enterprises in the sphere of heating, water, and electric power supply being Krai-owned state unitary enterprises. The tariffs on their services have been kept at the same level throughout the Krai's territories. Such a situation is far from being typical of all Russian regions. Accordingly, the problems associated with the possibility of establishing differentiated tariffs on utilities services in different settlements in Stavropol Krai are fraught with potentially acute conflicts that might be even more difficult to solve than in those regions where the organization of the utilities system (and, consequently, the equalization of tariffs) was dealt with at the raion level.

There is no unanimity concerning the issue as to at which level the corresponding powers should be kept under conditions of municipal reform, either. Some heads of settlements are quite willing to transfer these powers to raions¹³⁶, while others insist that they should remain at the settlement level, because it is impossible to quickly resolve the associated problems from the raion level (“One should just imagine what it means to try to place a telephone call through to the raion, to call a repair team in winter from 35 kilometers away, when there is a broken water pipe!...”)¹³⁷.

In Stavropol Krai, the process of transferring state powers to the municipal level has been going on quite extensively. According to the information from the Krai Minister of Finance, the volume of state powers

¹³⁶ Ibid, p. 59.

¹³⁷ Ibid, p. 79.

being transferred has increased nearly fourfold¹³⁸. This has resulted in a situation when the correlation of targeted and non-targeted transfers to municipal formations has demonstrated an obvious shift toward the targeted ones: in 2005–2006 the ratio between the two was 80/20, where more than 90% of the targeted monies were represented by subventions earmarked for the execution of state powers.

4.3.2.5. Other Problems Associated with the Implementation of Municipal Reform

For Stavropol Krai, many of the issues discussed within the framework of the analysis of the experience of Novosibirsk Oblast are just as important. However, some additional problems were also revealed here, which are of importance for adequate understanding of the future prospects of municipal reform.

- In Stavropol Krai, for the transfer of state powers, a mechanism was envisaged whereby property needed for the execution of such powers is not left in municipal ownership, but is first transferred to the Krai level, and then granted to municipal formations, to be used by them without compensation. This mechanism has clearly demonstrated its potential for giving rise to conflicts and additional costs. Big-size municipal formations were against the transfer of such property into the ownership by the State and delayed the completion of this process. At the same time, in an event of the transfer of municipal enterprises and budget-funded institutions it was necessary to make changes to constituent documents, to revise licenses, which was associated with additional budget funding to cover the costs. According to the estimations made by the Krai Administration, such costs amounted up to 5,000 roubles for each juridical person¹³⁹.
- The enactment of new federal legislation has made more difficult the involvement of the population in the decision-making in respect to issues of local importance, including the revenues generated by the self-assessment taxation. Meanwhile, in the settlements of Stavropol Krai, the local residents used to participate in the improvement of the

¹³⁸ Ibid, p. 137.

¹³⁹ Ibid, p. 146.

territories of cemeteries, the removal of unauthorized heaps of litter, the development of territories and repair of roads. It would have been impossible to provide adequate solutions to these problems at the expense of budget resources only.

4.3.3. Tver Oblast

Since in Tver Oblast the new system of interbudgetary relations in respect to municipal raions and city Okrugs was first implemented in 2005, and not in 2006, as it happened in the majority of other regions, the analysis of the specific features of this system may involve the study of data available over a longer period of time. The baseline within the framework of this analysis was the year 2004, and we reviewed both the planned and actual data for the year 2005, as well as the plan for 2006.

The first area of analysis involves the structure of the revenues of municipal formations. The corresponding data are presented in *Table 4.7*. The table has a rather complex structure, because it was necessary to ensure the comparability of planned and reported indices. The problem is that some of the dotations allocated to the municipalities in Tver Oblast are being replaced by normative deductions from the income tax. Therefore, it so happens that one and the same sum may appear in a planned budget as a dotation, while in the report on budget execution be presented as part of tax and non-tax revenues. Accordingly, all the dotations transferred to municipal formations were divided into two parts: those dotations that were replaced by normative deductions from the income tax (part 1), and those which were not replaced by normative deductions (part 2). As can be seen from the Table, the specificity of budget report makes it impossible to reflect the actual data for the year 2005 in respect to tax and non-tax revenue, as well as the total amount of dotations earmarked for the equalization of budget sufficiency, in a form that could be compatible with planned values. It can only be possible to obtain the data in respect to tax and non-tax revenues, increased by that part of dotations which was replaced by deductions from the income tax, and in respect to the amount of dotations that were not replaced by tax deductions. This incomparability of planned and reported indices may prove to be a very

serious obstacle when the results of municipal reform are analyzed in terms of interbudgetary relations.

On the basis of the data from this Table, several conclusions can be drawn.

Firstly, resulting from reform of interbudgetary relations, the share of tax and non-tax revenues in the structure of revenues of municipal formations has significantly diminished. From this point of view, the most correct approach would be to compare the share of the actually received tax and non-tax revenues in 2004 and the share of tax and non-tax revenues, increased by the part of dotations replaced by deductions from the income tax and received in the years 2005 and 2006, because in 2004 those monies were recognized as tax revenues which are, in the presently existing terminology of the Budget Code, may be placed both in the categories of single normative tax deductions and additional normative tax deductions, whereas tax revenues incorporate only single normative deductions. However, even when these circumstances are taken into consideration, the share of tax and non-tax revenues in 2005 did go down by 1.5 times, as compared to that in the year 2004, and in 2006 – by 1.6 times.

Secondly, as a result of reform of interbudgetary relations, the role of targeted funding in the municipal budgets became much more prominent. In *Table 4.7*, the non-targeted budget funding may be regarded as that consisting of tax and non-tax revenues, the dotations earmarked for the equalization of budget sufficiency, as well as the dotations from the stabilization fund. Targeted funding is represented by subsidies from the Fund for co-financing of social expenditures and the Fund for municipal development, as well as the subventions for the execution of some state powers. In 2004, the ratio between targeted and non-targeted funding was approximately 70/30. In 2005, this ratio demonstrated a noticeable shift toward a higher share of targeted funding and became approximately 55/45. Finally, in the 2006 plan, an even more dramatic change became obvious, with the resulting ratio of 40/60. As for the ratios between targeted and non-targeted funding in the transfers to municipal formations from the regional budget, from 2004 to 2006 it changed approximately from 60/40 to 77/23, which is also an evidence of the same trend toward a higher degree of regulation of the expenditures of local budgets.

Table 4.7

Structure of Revenues in Consolidated Budgets of Municipal Raions, 2004–2006

	Share in Total Budget Revenues, Average for Municipal Raions and City Okrugs, in%							
	Tax and Non-Tax Revenues	Tax and non-Tax Revenues, with First Part of Dotations to Equalization of Budget Sufficiency	Dotations to Equalization of Budget Sufficiency	Dotations to Equalization of Budget Sufficiency, without First Part of Dotations to Equalization of Budget Sufficiency	Dotation From Stabilization Fund	Subsidies From Fund for Co- financing of Social Expenditures and Fund for Municipal Development	Subventions	Other Interbudgetary Transfers
2004 (fact)	47.1		22.8			3.2	25.7	0.5
2005 (plan)	21.1	31.9	14.1	5.2	19.4	11.2	32.2	0.0
2005 (fact)		31.4	6.2	No data	17.4	15.6	27.8	1.8
2006 (plan)	23.1	28.7	11.3	6.2	6.8	26.5	31.7	0.0

Source: Information obtained from the Administration of Tver Oblast.

The redistribution of targeted and non-targeted funding occurred mainly because in 2006, as compared to 2005, the share of the stabilization fund diminished from 19.4% to 6.8, while at the same time the share of subsidies increased from 11.2% to 26.5%. It can be noticed that the increase in the share of targeted funding occurred due to the diminished role of the stabilization fund in promoting a smoother transition from the formerly existing system of interbudgetary relations to the new one. The function of compensating for the excessively high actual expenditures of municipalities has been transferred from a temporary instrument (the stabilization fund) to a permanent one (the fund for co-financing of social expenditures).

Thirdly, there has emerged a trend toward a growing share, in the municipal budgets, of the financing earmarked for transferred state powers, although in Tver Oblast this growth has not been so dramatic as in some other regions. The share of subventions in the municipal budgets rose

from 25.7% in 2004 to 32.2% in the 2005 plan, or by 1.25 times. In actual indices, this share was even lower (27.8%). In the 2006 plan, no noticeable changes in this parameter have occurred, as compared to the 2005 plan.

The second area of analysis involves reviewing the impact of the switchover to the new mechanisms of interbudgetary relations on the degree of financial equalization of municipal formations. *Table 4.8* shows the data on the variance of budget sufficiency of municipal formations, depending on the ways the interbudgetary relations were developing. Evidently, the dotations to the equalization of budget sufficiency must produce a downward change in the variance coefficients, whereas the dotations from the stabilization fund, as well as subsidies, are planned in accordance with the individual specific features of each municipal formation and may produce growth of this coefficient.

Table 4.8

Variance Coefficients of Budget Sufficiency of Consolidated Budgets of Municipal Raions and Budgets of city Okrugs in Tver Oblast

Variance Coefficients of Budget Sufficiency of Consolidated Budgets of Municipal Raions and Budgets of City Okrugs in Tver Oblast (as%), in Respect to					
	Tax and Non-tax Revenues	Tax and Non-tax Revenues *	Tax and Non-tax Revenues and Dotations to Equalization of Budget Sufficiency	Revenues without Targeted Transfers	Revenues with Subsidies
2004 (fact)	-	80.4	53.5	53.5	50.3
2005 (plan)	32.2	22.3	14.4	20.3	23.6
2005 (fact)	-	30.6	27.4	24.8	25.8
2006 (plan)	50.4	49.7	25.1	19.4	22.2

*The data of the years 2005–2006 incorporate the dotations to the equalization of budget sufficiency, replaced by additional deductions from the personal income tax.

Source: Information obtained from the Administration of Tver Oblast.

The first thing that can be noticed when looking at this table is the radical change in the variance coefficient in respect to the tax and non-tax

revenues in the 2005 plan, as compared to the facts reported in 2004, with due regard for that part of dotations, which is replaced by normative deductions from the income tax; variance was thus decreased by 3.6 times. Even when one takes into account the changes in the composition of taxes consolidated to municipal formations, this change seems to be overestimated. Indeed, the actual data reported in 2005 demonstrate that the variance coefficient decreased, approximately, by only 2.6 times. However, in 2006 the variance coefficient planned in respect to tax and non-tax revenues is considerably higher than in 2005, although being by 1.6 times lower than in 2004. This dynamics has led to a number of conclusions. On the one hand, it demonstrates the positive influence of the changing composition of the taxes consolidated to municipal formations on the spread of their budget sufficiency levels. In 2004, to the municipalities of Tver Oblast some taxes with unevenly distributed tax bases, such as the profits tax, were consolidated, as well as excises. And although for some municipal formations the normative rates of deductions from these taxes were differentiated, the variance was, nevertheless, rather high. The spread both in 2005 and in 2006 was much more narrow. On the other hand, the variance in 2005 was much lower than in the 2006 plan. In all probability, this happened due to the fact that in 2005 the income tax, which was to be consolidated to municipal formations, was being partially redistributed between them by the per-capita principle. As shown by the data from Tver Oblast, the resulting equalizing effect was quite considerable.

The second observation that can be drawn from the analysis of this table is the marked discrepancy between the planned level of the equalization of budget sufficiency levels in 2005 and the actual achievements in that sphere. The actual level of budget sufficiency variance after the allocation of equalizing dotations was nearly twice as high as the planned level. At the same time, contrary to expectations, neither the dotations transferred from the stabilization fund nor subsidies produced any growth in the variance coefficient. Moreover, in the budget for the year 2006, a rather significant fall in the variance coefficient is planned, to result from the allocation of dotations from the stabilization fund and subsidies. Thus, with a high degree of probability, it can be assumed that the poten-

tial equalization of budget sufficiency produced by non-targeted dotations has been artificially lowered.

In *Fig. 4.1* and *4.2*, the planned and actual structures of the revenues of municipal formations in 2005 are shown (without taking into account the subventions earmarked for the execution of state powers). These diagrams demonstrate even more graphically than *Table 4.8*, that one of the reasons for the low effect of financial equalization has been the insufficient quality of budget planning. The actual revenues of municipal formations differed rather markedly from forecasted values, and therefore the ultimate result turned out to be different from what had been expected.

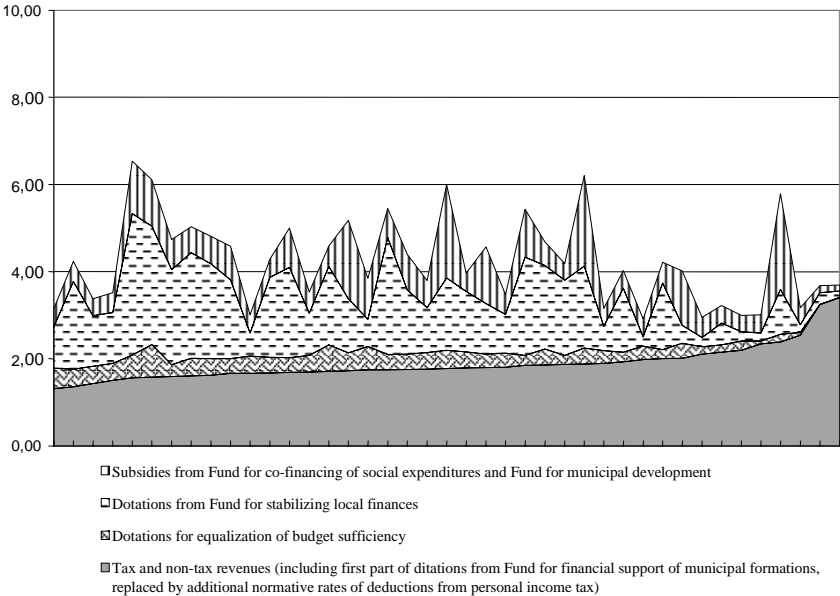


Fig. 4.1. Budget Sufficiency of the Consolidated Budgets of Municipal Raions and City Okrugs, Plan for 2005 (Thousand Roubles per Capita)

Source: Information published by the Administration of Tver Oblast.

It is quite evident that the experience accumulated by Tver Oblast does reflect, to a certain extent, the general trends typical of reform of interbudgetary relations being implemented under conditions of division of powers, just as it reflects in some of its aspects its own local and regional specificity. Our analysis has obviously been insufficient for any final conclusions to be drawn in respect to this issue. However, we can still present certain hypotheses, which will be tested in course of our further analysis based on the results of the year 2006 and on a more numerous sample of regions.

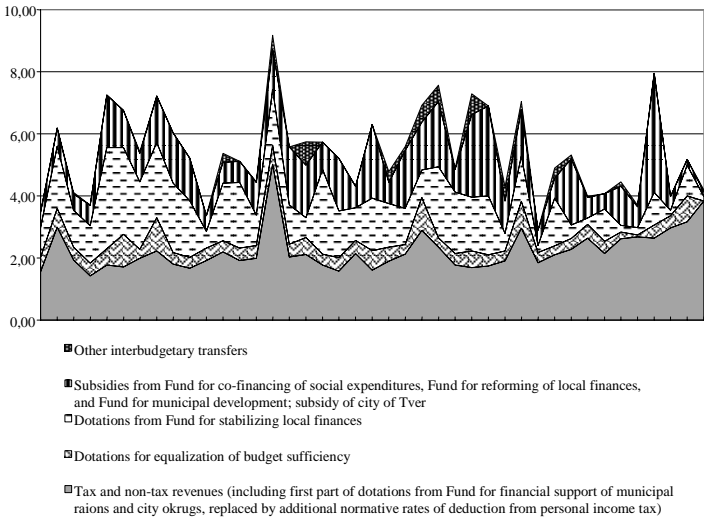


Fig. 4.2. Budget Sufficiency of the Consolidated Budgets of Municipal Raions and City Okrugs, the Data on the Execution of Budgets, 2005 (Thousand Roubles per Capita)

Source: Information published by the Administration of Tver Oblast.

Thus, it is very probable that such a dramatic difference between the planned and the actual effect of financial equalization, and the insuffi-

ciently equalizing effect of dotations transferred from the Fund for financial support of municipal formations, do, indeed, reflect the specific situation that emerged in Tver Oblast during a given period of time, as well as the existing flaws in the procedure for revenue planning. However, it should be taken into account that such flaws, which are by no means characteristic of only this particular oblast, may also have negative impact on the practice of financial equalization in other regions.

At the same time, it can be assumed that the trend toward reducing the financial independence of municipal formations, which reveals itself in the dramatically decreasing tax and non-tax revenues in local budgets, in the correlation between non-targeted and targeted budget resources having been changed in favor of the latter, in the growing share of funds earmarked for the financing of transferred state powers, as compared to that earmarked for the financing of issues of local importance, may well be of a universal character. It is noteworthy that the share of targeted transfers to municipal formations in the budget of Tver Oblast for the year 2006 is now over 75%, having become comparable to the similar parameter in Stavropol Krai, although the internal structures of these two types of transfers (the percentage ratios of subsidies and subventions therein) are markedly different.

Also, judging by the available data, it may be concluded that the Fund for co-financing of social expenditures and, probably, also the Fund for municipal development will be serving as the basic instruments for regulating both the current and capital expenditures of municipal formations, earmarked for specific issues of local importance, even if their independence in dealing with those issues is to be formally proclaimed.

These processes fundamentally contradict the concept of municipal reform. In part, they may be explained by the existing objective restrictions to ability of municipal formations to ensure their self-financing, which were discussed in Chapter 1. However, to a substantial degree, they have been triggered by the intention of regional authorities to have greater control over the finances of municipal formations, no serious barriers having been envisaged within the framework of reform to such activities on their part.

Conclusion

Our analysis of the situation that has emerged as a result of municipal reform has clearly demonstrated the very complex and controversial nature of the process of transformations going on in this sphere. From the point of view of the implementation of Law No. 131-FZ, the year 2005 can be subdivided into three phases: the evolutionary process of preparing for municipal reform, the crisis of municipal reform, and the phase of its regionalization and compromises. In this connection, the most important is the question as to where to look for the causes of this crisis of municipal reform. The factors most commonly discussed within this context are those that are quite superficial and have their roots in the unpreparedness of many regions for reforming and in some specific mistakes associated with the very process of reforming. If all the encountered difficulties had indeed been given rise to by these factors only, the concept of going through a three-year transition period and thus extending over time the process of transformations could indeed be regarded as a quite acceptable solution.

However, the analysis has shown that the crisis was primarily the result of some profound conflict inherent in the very concept of municipal reform, its inner lack of proper coordination and poor adaptation to the specific features characteristic of Russia's situation. In such a situation no delay in the actual implementation of reform, nor any minor corrections can eliminate the causes of the crisis; moreover, such measures may even result in the loss of the positive potential that could have been realized in the course of reforming. Of no less importance are the political causes of the emerging crisis-type phenomena: the opposition to reform on the part of regional authorities and the striving of RF subjects to strengthen their control over municipal formations and to centralize, in terms of legislation, the powers consolidated to them.

Nevertheless, at the same time, one should not underestimate the objective problems faced by reform. Our study has revealed that from the formal point of view the number of municipal formations in the Russian Federation grew approximately twofold. However, in a situation when in many regions the endowment of settlements with the status of a municipi-

pal formation was purely formal, as those structures had neither their own municipal property nor a municipal budget, the real scope of necessary transformations was found to be much greater than previously anticipated, even in purely quantitative terms. Thus, according to our estimates, as a result of municipal reform the number of administratively independent participants in interbudgetary relations was to rise by 5.7 times.

The analysis of the consequences of the regionalization of municipal reform is no less important than the study of the causes of the crisis. A detailed reviewing of the results of transformations in the territorial organization of local self-government has shown that even under the conditions of a rather meticulous regulation of this process from the federal level, the variations between regional models were quite dramatic. The standpoints of regions differed in respect to issues relating to the creation of new settlements, the granting to urban settlements the status of a city okrug, etc.

Thus, some regions have almost never united the already existing submunicipal structures, creating municipal formations of the settlement type on the basis of former village councils or other similar subdivisions of raion administrations, while others initiated an active policy of uniting territories. As a result, in 19 regions the number of newly created settlements differs only slightly from that of the former submunicipal structures, while in 19 RF subjects the fall in the number of newly created settlements, as compared to the number of submunicipal structures, was between 10% and 40%, while in 10 regions – between 40% and 80%.

As for the issue of granting to urban settlements the status of a city okrug, the policies of regions were also quite varied. Some regions granted this status to all cities and towns of oblast importance, or even to those towns which previously had not even been administratively independent municipal formations. This former situation, however, is characteristic of only two regions – Yaroslavl Oblast, where the city of Rybinsk won the status of a city okrug as a result of the political activity of its citizens, and Primorskiy Krai. In all other regions the situation was quite opposite - there, many previously administratively independent cities and towns became part of municipal raions. As a consequence, the status of a city okrug was withheld from those 52 cities and towns of oblast importance

which used to be administratively independent municipal formations, including Angarsk (with its population of 245.5 thousand) in Irkutsk Oblast, Gatchina (88.4 thousand) in Leningrad Oblast, Neriungi (65.8 thousand) in the Republic of Sakha (Yakutia), and Belorechensk (60.3 thousand) and Labinsk (62.9 thousand) in Krasnodar Krai.

In a number of regions, city okrugs were established at the level of rural raions or municipal raions created on urban territories, which, evidently, was a distortion of the initial approach to reforming the territorial structure of local self-government envisaged in federal legislation.

However, the process of regionalization became much more intensified after the decision was made that the coming in force of Law No. 131-FZ was to be postponed, and that a three-year transition period should be introduced, during which the regions would be granted the right to determine on their own the rate and scope of reforming in respect to newly created settlements. The analysis of regional legislation concerning this issue has produced the following typology of RF subjects, judging by their approaches to implementing municipal reform:

- the regions where in the regional normative-legal acts it was declared that full-scale municipal reform would begin from 1 January 2006;
- the regions where a certain part of the issues of local importance assigned to all the newly created settlements was to be consolidated to municipal raions (while only between 3 and 22 issues of local importance were left to settlements); some of the regions in this group opted for a step-by-step expansion of the powers granted to the settlement-level municipalities;
- the regions where different rates of implementing municipal reform for different groups of newly created settlements were established;
- the regions where the implementation of municipal reform did not, in fact, begin in 2006, and where all issues of local importance faced by settlements were delegated to the level of municipal raions.

However, even that rather limited material in respect to the actually implemented transformations at the municipal level in different groups of regions, which was available for purposes of our analysis, has demonstrated that, as shown by the study of the formal institutional framework existing at the regional level, no objective estimation of the actual process

of municipal reform is possible. Even in those regions where full-scale implementation of reform has been declared, in actual practice a variety of instruments are being applied, which restrict the independence of newly created settlements, the most important among them being the agreements concerning the transfer of the powers of settlements to municipal raions.

The analysis of the experience of regions (Novosibirsk Oblast, Stavropol Krai, Tver Oblast), where municipal reform, to a varying degree, was started in 2005, has also led to some definite conclusions as to which factors may influence its implementation.

Firstly, it is quite obvious that even in those regions where for quite a long time the settlement model has been the prevailing one, the settlements have accumulated some significant practical experience, the settlement administrations are rather numerous and highly qualified (in Stavropol Krai the average number of staff in a settlement administration is 12 persons, and 85% of the heads of municipal formations have higher education), the powers of municipal formations are limited, as compared to those stipulated in Law No. 131-FZ. At the next stage of our study, it will be necessary to determine to which degree this has been associated with political factors, and to which – with the really existing distortions in the distribution of issues of local importance between municipal raions and settlements, as consolidated by federal legislation.

At the same time, the experience of pilot regions is interesting in that not only the transfer of powers from settlements to municipal raions was effectuated there, but an opposite process was also going on, that of the transfer of powers from municipal raions to settlements. Thus, in some raions of Stavropol Krai, to the settlement level were transferred the powers relating to pre-school education, and to some extent – those relating to supplementary education. In some cases the transfer of powers in the sphere of public health care system was also effectuated. The top officials of settlements in Novosibirsk Oblast were rather unanimous in their opinion that to the settlement level the following issues of local importance should additionally be transferred:

- the current upkeep and repair of educational establishments;

- the current upkeep and repair of the institutions in the public health care system;
- the organization of pre-school education;
- the organization of supplementary education;
- the organization of emergency medical care.

Secondly, the experience of analyzed regions has demonstrated that the organizational model of the administration of municipal formations, which envisages the appointment of the head of a local administration by contract, created opportunities for nearly all the former municipal elite to remain in power, while direct election may result in a somewhat more dynamic replacement of the top officials in a municipal formation. Thus, in Novosibirsk Oblast, where an elected head of a municipal raion chairs the local administration, 6 among the 30 newly appointed heads have had no relation to the former elite in power. At the same time, in Stavropol Krai, where the head of an administration is appointed by contract, this post in 22 raions out of 25 is occupied by the former heads of the liquidated territorial state administrations, or by their first deputies.

Thirdly, the practices of the pilot regions have confirmed the assumption that it is the transformations in the financial sphere that are fraught with greatest complexities. Also, within the framework of reform, no financial mechanism emerged that could promote further growth of the independence of municipal formations. On the contrary, their real financial independence became, as a result, even more limited. Thus, the following specific features of implementing the reform of interbudgetary relations in pilot regions could be revealed:

- the reform of interbudgetary relations in Novosibirsk Oblast and Stavropol Krai, despite the formal changes in the normative-legal documents and the methodologies of financial equalization, remained, in fact, incomplete – because in neither of the two regions the equalization of budget sufficiency of municipal formations has been carried out; instead, they simply provide financing to cover the deficits in local budgets;
- the reforming of interbudgetary relations resulted in a marked reduction in the share of tax and non-tax revenues in local budgets, even

- in those instances when additional normative rates of tax deductions were consolidated at the regional level;
- the role of targeted funding (subsidies and subventions), as compared to non-targeted, in the structure of interbudgetary transfers of municipal formations rose dramatically – to 75–80%, which also contributed to the restriction of the financial independence of bodies of local self-government.

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Stavropol Krai

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Law of Stavropol Krai of 29 July 1999, No. 23-KZ, “On the Register of municipal posts of the municipal service in Stavropol Krai”.

Law of Stavropol Krai of 23 September 1999, No. 27-KZ, “On the procedure for conducting elections to bodies of local self-government in Stavropol Krai” (no longer in force).

Law of Stavropol Krai of 3 January 2001, No. 6-KZ, “On the system of official salaries of municipal officers within the municipal service in Stavropol Krai”.

Law of Stavropol Krai of 4 July 2003, No. 24-KZ, “On the procedure for establishing the borders of municipal formations in Stavropol Krai”.

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Law of Stavropol Krai of 22 July 2004, No. 60-KZ, “On some issues of the execution of local self-government in the territories of raions in Stavropol Krai”.

Law of Stavropol Krai of 26 July 2004, No. 63-KZ, “On the introducing changes in Article 6 law Stavropol Krai “On the procedure for establishing the borders of municipal formations in Stavropol Krai””.

Law of Stavropol Krai of 4 October 2004, No. 88-KZ, “On the endowment of municipal formations of Stavropol Krai with the status of an urban or rural settlement, a city okrug, or a municipal raion”.

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Law of Stavropol Krai of 5 October 2004, No. 91-KZ, “On changing the periods of powers of the bodies of local self-government in some municipal formations of Stavropol Krai”.

Law of Stavropol Krai of 31 December 2004, No. 118-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai in the sphere of physical culture and sports”.

Law of Stavropol Krai of 31 December 2004, No. 119-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai in the sphere of agriculture”.

Law of Stavropol Krai of 31 December 2004, No. 120-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to social support of orphaned children and children left without parental care”.

Law of Stavropol Krai of 31 December 2004, No. 121-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to social support of disabled children”.

Law of Stavropol Krai of 31 December 2004, No. 122-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to the formation, upkeep and use of the Archival Fund of Stavropol Krai”.

Law of Stavropol Krai of 31 December 2004, No. 123-KZ, “On the endowment of bodies of local self-government of municipal formations in Stavropol Krai with some state powers of Stavropol Krai pertaining to the settlement of issues of organizing specialized medical care at dispensaries for skin and venereal diseases, dispensaries for tuberculosis, narcologic

dispensaries, oncologic dispensaries, and other specialized medical institutions”.

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Law of Stavropol Krai of 31 December 2004, No. 126-KZ, “On the budget of Stavropol Krai for the year 2005”.

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Law of Stavropol Krai of 2 March 2005, No. 12-KZ, “On local self-government in Stavropol Krai”.

Law of Stavropol Krai of 2 March 2005, No. 13-KZ, ‘On introducing changes into the Law of Stavropol Krai “On the system of official salaries of municipal officers within the municipal service in Stavropol Krai”’.

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Law of Stavropol Krai of 20 June 2005, No. 27-KZ, ‘On introducing changes into Article 3 of Law of Stavropol Krai “On the procedure for establishing the borders of municipal formations in Stavropol Krai”’.

Law of Stavropol Krai of 20 June 2005, No. 28-KZ, ‘On recognizing as null and void the Law of Stavropol Krai “On “On the endowment of bodies of local self-government of the city of Piatigorsk, the city of Yessentuki, the city of Kislovodsk, the city of Zheleznovodsk, the city of Lermontov, and the city of Nevinnomyssk with some state powers of Stavropol Krai pertaining to the treasury execution of the budget of Stavropol Krai on their respective territories”’.

Law of Stavropol Krai of 20 June 2005, No. 29-KZ, “On the amendments to the Charter (of the Fundamental Law) of Stavropol Krai”.

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Law Stavropol Krai of 30 December 2005, No. 80-KZ, “On establishing single and additional (differentiated) normatives for the deductions, to the budgets of municipal raions of Stavropol Krai, of federal and regional taxes, and the tax envisaged by the special tax regime, which are subject to transfer to the budget Stavropol Krai in accordance with the Tax Code of the Russian Federation”.

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Law of Stavropol Krai of 16 March 2006, No. 12-KZ, ‘On introducing changes into Article 21 of the Law of Stavropol Krai “On the municipal service in Stavropol Krai”’.

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Decree of the State Duma of Stavropol Krai of 25 November 2004, No. 1064-III, SDSK, “On appointing the members of the Contest Commission for the conduct of contests for replacement of heads of administration of municipal raions in Stavropol Krai”.

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Tver Oblast

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Law of Tver Oblast of 12 November 2004, No. 62-ZO, “On the Fund for co-financing of social expenditures of Tver Oblast”.

Law of Tver Oblast of 12 November 2004, No. 63-ZO, “On the Fund for municipal development of Tver Oblast”.

Law of Tver Oblast of 18 January 2005, No. 4-ZO, “On establishing the borders of municipal formations and endowing them with the status of city okrugs, municipal raions”.

Law of Tver Oblast of 14 April 2005, No. 61-ZO, “On establishing the names of the bodies of local self-government of municipal formations in Tver Oblast”.

Law of Tver Oblast of 28 April 2005, No. 62-ZO, “On providing for the preparation and conduct of elections to bodies of local self-government of the newly created municipal formations in the territory of Tver Oblast”.

Law of Tver Oblast of 28 April 2005, No. 72-ZO, “On bodies and officials of local self-government of the newly created municipal formations in Tver Oblast”.

Law of Tver Oblast of 26 July 2005, No. 94-ZO, “On interbudgetary relations in Tver Oblast”.

Law of Tver Oblast of 9 December 2005, No. 142-ZO, “On decision-making by bodies of local self-government of Tver Oblast of some issues of local importance of the newly created settlements in Tver Oblast”.

Part 2

Chapter 5. International Experience with Municipal Reform

Introduction

The recent trend where the municipal sector in most developed and developing countries has increased its reliance on own source funding and reduced its reliance on grants has been accompanied by a renewed interest in municipal reform concentrating on restructuring and reorganization. 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. Some of the most notable recent, restructuring activity 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 – (*Kitchen, 2002, chapter 12*). Restructuring initiatives have also taken place in France (*Prud'home, 2005, at 4–5*), New Zealand (*Dollery, 2005, at 29*), Argentina (*Asensio, 2005, at 5–6*), Japan (*Mochida, 2005, at 11*), South Africa (*Heymans, 2005, at 10*), the Nordic countries (*Mikkelsen, 2005, at 10*), Germany, and Denmark (*McMillan, 2004, at 16 and 21*). Only in Russia, so it seems, has municipal reorganization and restructuring produced more local government jurisdictions.

Municipal reform has generally occurred 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 giving local governments 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 (grants) for restructured municipalities and

nothing if restructuring does not take place; for example, withdrawing grants by the provincial government if municipalities do not restructure or merge as in Ontario, Canada (*Kitchen, 2002*), or offering grants (subsidies) to those municipalities that do merge as in France (*Prud'home, 2005*). 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 (*Kitchen, 2002, chapter 12*).

The governing structure for a municipality is particularly important because it can affect the quantity and quality of services provided, the efficiency with which these services are delivered, and the way in which these services are funded; that is, whether service costs are shared throughout the region, area, or district in a fair, accountable, transparent and effective manner. Given the importance of municipal structure and organization, then, the rest of this paper is separated into three parts.

Section 5.1 briefly describes the structure of municipal government in a few countries. Selection of the countries was based on the availability of information and their uniqueness in structural design and service responsibilities. Section 5.2 identifies and discusses a number of goals or objectives that the reform initiatives have tried to address and whether or not these have been met. Section 5.3 outlines the data and information that is required to monitor the reforms along with a few issues around monitoring the reform initiatives. Section 5.4 offers some observations arising from the municipal reforms and their importance.

5.1. Reform Initiatives in Selected Countries

This section highlights municipal governing structures, organizations, major spending responsibilities, and recent reform initiatives in a few countries. The countries were chosen on the basis of geography, availability of information, and an attempt to illustrate a range of options.

5.1.1. Canada

Canada is a federation with three levels of government – one federal, thirteen provincial/ territorial, and about 4,000 municipal governments. 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.

Municipal reform in Canada reached its peak during the period from 1995 to 2002. During this period, a considerable amount of restructuring (much of it voluntary) emerged through the merger of 2 or 3 smaller municipalities within an existing upper tier structure. This was generally a local choice although often driven by a provincial policy that only provided grants to those municipalities that reorganized into fewer units. This is not unlike restructuring in France (*Prud'home, 2005*) where fewer municipalities have emerged because federal grants are only available to municipalities that restructure.

To gain some insight into the impact of restructuring, it might be noted that from July of 1996 to January of 2002 in the province of Ontario, the number of municipalities declined from 815 to 447 (or by 45%) and locally elected politicians fell from 4,586 to 2,804 (or by 39%).

In Ontario, the province where municipal reform initiatives were most notable, the reform process was driven in one of three ways. First, a locally driven initiative; that is, municipalities voluntarily agreed to merge or restructure on their own. Second, provincially initiated restructuring that occurred in four regional governments (Haldimand-Norfolk, Hamilton-Wentworth, Ottawa-Carleton and Sudbury). In each of these regions, the province appointed a Special Advisor who made recommendations to the province for acceptance or rejection by the latter. Third, provincially driven initiatives in municipalities in counties and unorganized areas or districts. Here the province used its legislative power [Section 25(3) of the Municipal Act] to appoint a Commissioner who made the final decision on what should be done.

There were some important differences between the power and process of a Commissioner and that of a Special Advisor (SA). Under the former, the decision of the appointed Commissioner was final and binding – the provincial government had no say in the structure chosen by the Commissioner. Under the latter, the SA made recommendations to the provincial government and the province ultimately accepted, rejected or altered the recommendations prior to implementation. In addition, the process for reaching a final decision differed under the two approaches. A Commissioner followed a process and time table that included publication of a draft report describing the restructuring options or preferred op-

tion for the municipalities under consideration. The draft report was intended to solicit public input prior to completion and release of a final report that described in detail the preferred structure. A Special Advisor, by comparison, was not required to publish a draft report. Instead, the SA sought public input through meetings with interested citizens and municipal officials and submitted a final report to the provincial government for its decision.

Regardless of the approach taken to reform, each generated considerable controversy and heated debate often with about the same number of supporters as there were dissenters. In general, the business community supported large units of local government that could benefit from economies of scale, provide a better tax base for sharing the cost of municipal services, and inject competition in service delivery through the creation and use of delivery zones. Those supporting local preferences, smaller governing jurisdictions, and a fear of getting rid of the 'status quo' generally opposed the reform initiatives.

5.1.2 Japan

Japan is a unitary country (central and local governments) with a two-tiered local government system everywhere. At the local level, there are 47 prefectures (upper tier) and 3,218 municipalities (lower tier). Prefectures are responsible for services that encompass a wide area including responsibility for formulating comprehensive local development plans, and taking responsibility for forest conservation and flood control. They also serve as a conduit for communicating and coordinating policies between the central government and municipalities, and for advising and guiding municipalities on matters of organization and management including the formulation of amalgamation plans for municipalities. Prefectures are also responsible for establishing and operating senior high schools and universities.

Municipalities, by comparison, are responsible for public safety (fire fighting, crime prevention, disaster prevention), health (establishing and operating hospitals) and environmental conservation (pollution control and garbage disposal). They are also responsible for local development (planning, roads, and agricultural development), establishing and main-

taining various municipal facilities (public halls, nurseries, elementary and junior high schools, libraries, and welfare facilities), and providing welfare services (*Kume, 2005, at 5–6*).

Recent reforms have concentrated on encouraging the amalgamation of municipalities to overcome problems with local fiscal distress and administrative inefficiencies created by a belief that there are too many local governments. To promote this, the central government has offered increased access to taxation at the local level (*Mochida, 2005, at 11*).

5.1.3. United Kingdom

The United Kingdom is a unitary kingdom. The local government structure is a mix of single tier and two tier local governments (*King, 2005*). Most of England consists of a two tier structure with the upper tier called counties and the lower tier called districts. In London, for example, the upper tier is called the Greater London Authority and the lower tiers are referred to as boroughs except for the City of London which is called a city. The rest of England, Scotland and Wales have single tier local government systems with a few joint-use boards assuming responsibility for services that spread across larger geographical areas. *Table 5.1* indicates the number of local government authorities as of 2001.

In the two tier system, especially as exists in London and six other English metropolitan areas (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands, and West Yorkshire), education, secondary roads, social services, tertiary roads, housing, and solid waste collection are the responsibility of the lower tier. The upper tier is generally responsible for police and fire services although these are provided by joint boards in some areas, and for solid waste disposal. In single tier municipalities, joint boards covering a wider geographical area are responsible for police and fire protection while the remaining services are the responsibility of the single tier governing authority.

The 1996 reforms advocated single tier municipalities for at least four reasons. First, one tier would reduce administration costs and confusion. Second, some of the very large authorities that were set up in the 1970s were deemed to be too large to be useful. Third, because local authorities now contract out the delivery of some of their services, there is less need

for having large authorities to take advantage of economies of scale. Fourth, some of the large local authorities had never been accepted by the public.

Table 5.1

**Number of Local Government Authorities
in the United Kingdom in 2001**

Area	Number of Authorities
Greater London Authority (GLA)	1
London districts	33
Metropolitan districts	36
English unitary authorities	46
English two-tier areas: upper tier	34
English two-tier areas: lower tier	239
Scottish unitary authorities	32
Welsh unitary authorities	22

Source: King, David, 2005, “Local Government Organization and Finance in the United Kingdom”, a chapter in *Local Government Organization and Finance: Comparative International Practices*, edited by Anwar Shah (Washington: World Bank Institute, forthcoming).

The 2000 reforms created an upper tier authority called the Greater London Authority with responsibility for police (previously the responsibility of the central government) and fire. Recently, however, the authority may be best known for introducing congestion charges where all vehicles using central London during the day pay a daily charge (King, 2005, at 7).

5.1.4. South Africa

South Africa is a federal country with 284 local governments, down from 843 prior to consolidations. This includes six single tier metropolitan governments (“metros”) that are responsible for all local public functions and services. The remaining municipalities are organized in a two tier system – 46 upper tier districts and 238 lower tier municipalities. Dis-

district governments have no authority over the lower tier municipalities but they share several responsibilities with the local municipalities within their jurisdiction. The district governments were created to provide services that benefit from economies of scale; to provide coordinated planning across a large geographical area; and to handle services that are primarily income redistributive in nature (*Heymans, 2005*).

Differences in service responsibility vary somewhat across the country and it is continuously evolving since the two-tier system only came into existence in 2000. The general pattern, however, is that districts are responsible for environmental health, and water supply and sanitation where the fiscal capacity of the lower tier is relatively low. The upper tier also has some responsibility for district roads (mainly arterial and major roads) although there is considerable uncertainty over the assignment of responsibility here. Electricity is the responsibility of the lower tier as is parks, sports and recreation, local roads, street lighting, traffic control and by-law monitoring and enforcement.

Since democratization in 1994, the initial phase of reform was to de-racialize local structures and make their approach more “developmental” by enhancing their service delivery and governance qualities, putting new governing systems in place (two tier) and reducing the number of local governments through comprehensive boundary changes. Securing greater financial viability and fiscal sustainability has also been a priority and has entailed reforms of both the local property tax and intergovernmental grants.

Overall, the reform program has not suffered from a lack of good ideas or access to knowledge about international best practice. But it has lacked the dedicated management capacity to sequence and plan ahead; introduce and direct performance management; and set consistent policy towards critical issues across the full spectrum of service delivery, financing and governance demands (*Heymans, 2005, at 27*).

5.1.5. Chile

Chile is a unitary country organized into 12 regions, one metropolitan area (Santiago), 51 provinces, and 341 municipalities. Regional governments are mainly responsible for carrying out a variety of tasks pre-

scribed by the central government. This includes responsibility for creating a long run development plan for the region; ranking regional investment projects that capture local preferences for new public infrastructure; ensuring that local public services are functioning well; promoting local economic activities; monitoring the correct implementation of environmental standards and public transportation; and encouraging culture and social development.

Municipalities have six exclusive and thirteen non-exclusive functions. Exclusive functions include the preparation, approval and modification of the municipal development plan according to legal and statutory standards set by the central government; local planning, regulation and design of the building regulation according to legal and statutory standards; promotion of community development; enforcing standards for transportation and public transit; ensuring that all construction and urban development meets prescribed standards of the corresponding ministry; and community cleaning and adornment. Non-exclusive functions include provision of education and culture; public health and environmental protection; legal and social assistance; job training, employment and productive promotion; tourism, sport and recreation; urbanization, urban and rural roads; construction of social housing and sanitary infrastructure; public transportation and transit; risk prevention and assistance in emergencies or catastrophic situations; support, promotion and enforcement assistance of town security measurements; promotion of equity between men and women; and development of common interest local activities (*Letelier, 2005*).

In the case of health and education, municipalities are empowered to choose between two alternative administrative structures. First, these services may be delivered directly through administrative departments set up by the municipality. Second, private corporations may be used for the administration of primary health centers and education.

Two positive aspects of the Chilean approach to decentralization have been noted. One is the role now played by municipalities in the administration of socially oriented grants and their contribution to reducing poverty. The other is the innovation that has occurred in some of the educational support programs implemented by local schools (*Letelier, 2005*).

5.1.6. Poland

Poland is a unitary country with three levels of local government – almost 2,500 municipalities, 315 counties, 65 cities with county status, and 16 regions. The municipal level, however, is the only one protected by the constitution. The other two levels are not named in the constitution and their existence depends on laws adopted by the Parliament.

Municipalities are responsible for water supply and sewage treatment; street cleaning, refuse collection and waste disposal; local public transportation; street lighting; district central heating; maintenance and construction of local roads; maintenance of green areas; municipal housing; provision of education including kindergartens and primary schools; culture, including local libraries and leisure centers; numerous services within social welfare sector, including services for elderly, handicapped and homeless people as well as housing benefits; and physical planning, and granting of building permits.

Counties are responsible for secondary education; hospital buildings; roads of county importance; several social services; labor offices coping with unemployment problems; natural disasters' protection; consumer protection; land surveying; and various inspections such as sanitary services and buildings.

Regional governments are mostly focused on strategic planning and regional development programs. In addition, they play a limited role in service provision. Where this exists, it is in the area of higher education, maintenance and construction of main roads, and organization of regional railway services (*Swianiewicz, 2005*).

Municipal reform in Poland took some time and faced considerable resistance. Barriers to implementation came from several groups (bureaucrats, trade unions, and special interest groups) negatively affected by the reforms. Also, general fears of the population against any change of 'status quo' played a significant role in resisting the reforms. Because of this, it was essential that all opponents and supporters of the reforms be identified and brought into the reform process in its early stages if its implementation was to succeed. This was done with varying degrees of success.

Throughout the reform process, significant and major conflicts emerged around control of three main resources: power, money and property. These occurred often because each new legal initiative changed the division of these resources and changed the disputes that ensued (*Regulski, 2005*).

5.1.7. France

France is a unitary country with a central government and three levels of local government. At the local level, there are 22 regions, 96 departments, and nearly 37,000 communes. In recent years, the central government has offered grants (transfers) to communes that consolidate or merge.

Spending responsibilities of the local governments are almost never clearly and formally defined; for example, municipal roads may be maintained by communes in some areas and by regions in others. There is very little that prevents one level of government from spending wherever it wants and on whatever services it wants. This is why one observes all levels of government spending on a variety of services including education (local governments develop and maintain school facilities; central government is responsible for labor; departments are responsible for junior high school buildings; and regions are responsible for senior high school buildings), transportation (central government is responsible for national roads, rail transportation, canals and harbors; regions for regional roads; departments for departmental roads and for bus transportation; communes are responsible communal roads and streets and public transit); economic development, culture, sports and leisure (communes provide most sports facilities and parks but all levels are involved in providing programs or subsidizing services).

For a few services, responsibility is assigned to a specific level of local government. For example, urban planning is the responsibility of communes. Environmental services – water, sanitation, garbage collection – are the responsibility of communes. Communes tend to organize themselves in ad hoc groupings or “syndicates” of varying perimeters to benefit from economies of scale in providing these services. In many cases, provision is contracted out to the private sector. Departments bear most of the responsibility for fire protection; communes are responsible for road safety; and the central government is solely responsible for police (*Prud’home, 2005*).

5.1.8. *United States*

The United States is a federal country. As of 1997, there were 87,453 local governments with 39,044 being general purpose authorities. This was made up of 3,043 counties, 19,372 municipalities (cities, towns, and villages), and 16,629 townships. There were also 13,726 single purpose school districts (in all but four states) and 34,683 other special purpose districts that are typically designed to provide one or two services (conservation, fire protection, water and sewerage, are examples). Over the past decade or so, the only serious reform initiatives have involved an increase in the number of special purpose districts to deal with cross-boundary issues (spillovers); to take advantage of economies of scale; and to reduce their public visibility (which often leads to a lack of accountability) when compared with general purpose authorities and school districts. The members of the latter governing bodies (that is; general purpose and schools) are elected whereas the members of special purpose districts are almost always appointed (*McMillan, 2004, at 11*).

General purpose local governments are responsible for a broad range of services including transportation (roads and public transit), public health services (often, especially counties, including hospitals), social welfare (often administration and sometimes, significant financing), police and fire protection, recreation and culture, and land use planning and local business regulation (Schroeder, 2005). Local governments may also operate public utilities but often these are provided through special districts or as public enterprises. School districts are responsible for elementary and secondary schooling.

5.1.9. *Summary*

The range and diversity of municipal government spending responsibilities around the world tends to be greater than the range and diversity of municipal governing structures. In some countries, municipal governments have little if any spending responsibilities for social services, education, hospitals and health. In other countries, these services are an important local government responsibility. In some countries, police protection is a local responsibility, whereas in others, it is the responsibility of a more senior level of government. In general, municipal governments eve-

rywhere 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 everywhere may be classified as single tier or two-tier with the former showing very little variation from country to country and the latter showing some variation. All countries have some kind of two tier structure for some, if not all of their municipalities. Most countries, 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, district, or metropolitan 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 be shared with the upper tier and some that are not shared with the upper tier.

Recent reform initiatives in most countries have concentrated on decentralizing more spending responsibilities to local governments, reducing the number of local governments that exist, and reforming the local tax base.

5.2. Reforms

Municipal reform initiatives have generally revolved around restructuring and reducing the number of municipalities. As noted earlier, Russia may be an exception because more municipal governments have been

created. The following identifies many of the goals or objectives of these reforms and tries to assess whether they have been or can be achieved.

5.2.1. What Are the Goals/Objectives of Municipal Reform Initiatives?

Specific reasons for reducing the number of municipalities vary from country to country, but the most prominent arguments in support of reform generally include the following. Fewer municipalities and restructured municipalities are intended to lead to:

- a more efficient, accountable, and transparent system of local government;
- a better revenue base for sharing the cost of providing local public services;
- a better range and quality of local public services;
- a more efficient and least costly way of delivering local public services;
- an improved fiscal and competitive environment in which businesses operate.

These reforms have generally involved creating some kind of two tier system (metropolitan government, as it is sometimes called in highly urbanized areas) of local government or creating a large single tier governing structure. The 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: i) service responsibility and funding; and ii) governance.

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. Lower tier 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. *Table 5.2* takes

these criteria and uses them in assigning local public services to either the upper or lower tier (Slack, 2001, at 17; and Kitchen, 2000, Appendix A).

Table 5.2

Allocation of Expenditure Responsibilities in a Two-tier Model

Function	Upper Tier	Lower Tier	Justification
Social services:			
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		
Land ambulance	X		Income redistribution; economies of scale; externalities
Roads and bridges	X	X	Economies of scale; externalities
Public transit	X		
Street lighting		X	Local versus regional roads
Sidewalks		X	Externalities; economies of scale
Water system	X		No externalities
Sewer system	X		No externalities
Garbage collection	X		Economies of scale
Garbage disposal	X		Economies of scale
Police protection	X		Economies of scale; externalities
Fire suppression		X	
Fire prevention/training	X		Economies of scale; externalities
Local land use planning		X	Externalities; economies of scale
Regional land use planning	X		Local responsiveness; scale economies for specialized services
Economic development	X		Economies of scale
Parks and recreation		X	Local access, responsiveness
Libraries		X	Externalities
			Externalities
			Local responsiveness
			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.

Large single tier governments in most countries 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.

Measuring the success of these reforms, however, is difficult for at least two reasons. First, in most countries, the time period since the reforms have been initiated has not been long enough to draw clear and unequivocal conclusions. Second and more important, the data often are not collected or retained in a manner that permits one to draw definitive conclusions about whether the goals/objectives of municipal reform have been achieved. What one can do, however, is discuss whether the reforms have the potential to achieve their goals or objectives. This will be attempted in the remainder of this section.

5.2.2. Can these Reforms Lead to Improved Efficiency, Accountability and Transparency?

In a two tier system, it is important to clearly delineate service responsibility between the two levels of local government. At the same time, a two-tier structure also requires an accountable, efficient, and transparent governing structure (*Kitchen, 1996; and Drewes and Kitchen, 1996*). To begin, it must be noted that the upper tier of local government 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 councilors 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 councilors. 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 (provincial, state and federal, national). To be sure, the two tiers of local government 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.

In short, supporters of a two-tier structure argue that it permits a division of service responsibility that leads to an efficient, effective, accountable, and transparent governing structure. The upper tier should be responsible for those services that provide region, area or district wide benefits, generate spillovers, entail some redistribution of income, and display 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*).

The usefulness of a two-tier structure depends on the objectives to be achieved, the breadth of service responsibilities, and 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, and Santiago in 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 prevent 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, 2002*).

Large consolidated single tier municipalities can also generate advantages that are similar to those of the upper tier in a two tier system. All local expenditure and revenue spillovers or externalities can be internalized in this structure (*Slack, 2001*). Clearer lines of responsibility can lead to more accountability because there is only one level of municipal government and taxpayers know who is responsible for the vast array of local services. Better service coordination and more streamlined decision-making could emerge because there is only one municipal council instead of two (*Boyne, 1992, at 333*).

The claim that larger governing units are likely to be less accountable 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 local tax bills, 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 governing jurisdiction.

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.

5.2.3. Can these Reforms Lead to a Better Revenue Base for Sharing the Costs of Local Public Services?

Regardless of the reform initiative or structure adopted, user fees should fund those local services where specific beneficiaries can be identified (*Kitchen, 2002; and Bird and Slack, 2004*). For tax funded local public services, however, tax rates should be set as follows. In a two-tier system, a uniform tax rate (for each class of taxpayer – residential, commercial, industrial) should be applied to all taxpayers receiving the same quantity and quality of service within the district/region/area governed by the upper tier. This will produce a redistribution of resources from relatively rich tax base municipalities to relatively poor tax base municipalities. Each lower tier jurisdiction, by comparison, should set its own tax rate for funding its own local services.

In a single tier structure, a uniform tax rate across the area will produce a similar redistribution of resources from richer areas to poorer areas. Funding fairness 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 may also increase its ability to borrow and recover capital and operating costs from user fees and local taxes (*Bahl and Linn, 1992, at 415*).

For those services where uniform standards are not required or whose benefits differ from municipality to municipality within a two-tier struc-

ture or from neighbourhood to neighbourhood in a single tier structure, tax rates could differ by benefiting area. In a two-tier structure, this is relatively simple because each municipality sets its own tax rate(s). In a single tier structure, the same effect can be achieved through the use of differential tax rates 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 over sixty 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 pre-amalgamated municipal boundaries.

If these practices are followed in setting municipal tax rates, both the two tier structure of local government and the single tier structure can lead to a better base for sharing the cost of local public services than currently exists in most countries.

5.2.4. Can these Reforms Lead to a Better Range and Quality of Local Public Services?

Many of the recent municipal restructuring initiatives have integrated rural and tourist communities with adjacent urban areas. This, in many countries, has generated considerable resistance on the part of both rural and tourist communities who argue that they should be excluded from urban areas in any governing structure. In reality, however, their claims may be unrealistic. Urban areas are the focal point for 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 municipal 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*). This kind of integration could be achieved through the upper tier in a two tier governing structure or by a single tier structure over the affected area.

Leaving rural and tourist areas as independent governing jurisdictions so that they can have a different range and level of service (particularly for municipalities around a major urban centre or a series of smaller urban areas adjacent to each other), as is frequently argued, 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 removed the opportunity for municipalities to provide many services with different standards.

Where municipal amalgamations and mergers have equalized services to a higher level, this harmonization is likely to be beneficial. Pre-amalgamated municipalities that could not afford an adequate level of service because of inadequate resources often find themselves the beneficiary of service levels that are comparable to neighbouring municipalities in post-amalgamated structures.

5.2.5. *Can these Reforms Lead to a more Efficient and least Costly Way of Delivering Local Public Services?*

In terms of efficiency improvements that lead to cost savings, the evidence arising from municipal reform initiatives 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 with large single tier structures.

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 municipal employees that previously received differing levels of compensation are all retained and paid comparable wages and salaries, 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 leveling up, costs could fall and 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. While it is generally recognized that it is too early to answer this question (the newly amalgamated municipalities have not been around long enough), critics of amalgamation have argued that restructuring will not lead to cost savings (*Sancton, 2000; Bish, 2001; Slack, 2000, at 24; and Sancton, 1996*). They sight a variety of international studies to support this 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 the published (refereed) literature. In other words, the evidence is not persua-

sive. For example, these studies generally do not hold service levels constant in their pre- and post-amalgamated structures. 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 should 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 (*Pavelka, 2001*).

The new City of Toronto, Canada, (also created in 1998) claims 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 are alleged to be \$305 million (*Toronto, 2001, at 19*).

The new City of Sudbury, Ontario, Canada, claims it achieved an annual savings of at least \$11 million from municipal restructuring and a further \$2.5 million annually from utility restructuring (*Rule, 2001*). The

new City of Hamilton claimed to be on track to save \$32.5 million annually as a result of restructuring (*Lychak, 2001*). These cost savings have seldom translated into lower taxes, however. They have largely been offset by additional costs from provincial downloading; by levelling up (higher levels) of some services; and by adding to municipal financial reserves.

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.

Critics of large single tier municipalities (*Sancton, 2000; Bish, 2001; Slack, 2000; and Sancton, 1996*), on the other hand, argue that this structure reduces competition between municipalities, leads 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 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 se-

cured through effective monitoring including performance measures and benchmarking (more on this below).

5.2.6. Can these Reforms Improve the Fiscal and Competitive Environment in which Businesses Operate?

A single tier level of local government 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.

5.3. Monitoring Municipal Reform

There is nothing of any substance that has been written directly on monitoring municipal reform. To a large extent, this is attributed to the reform process itself; once reforms are implemented, there is almost never a political desire to turn back. At the same time, there may be no perceived reason or incentive (by government officials) to devote public resources to monitoring the reform process because the ultimate objective is to move forward towards a fully functioning and operational new municipal structure. In spite of this, there are a couple of issues that are important for monitoring reform. First, proper municipal budgets, accounting systems, and reporting mechanisms must be in place so that one gets

correct and complete information on the data that are necessary for implementing the monitoring process. Second, there is the reform process itself and what should be done. Each of these is addressed in this section.

5.3.1. Information Required to Monitor Municipal Reform

To effectively monitor municipal reform, it is essential that properly designed and structured municipal budgets and accounting systems be in place. As well, it is necessary that all relevant information and data be properly, correctly, and completely reported.

a. Budgets

Municipal budgets should be designed to achieve the following objectives: (1) to provide for the maintenance of financial control; (2) to provide information essential for useful and efficient management decisions; and (3) to improve program and financial planning (*Solano and Brams, 1996*).

In practice, municipal budgets tend to be input oriented as opposed to goal or output oriented and far from ideal for measurement and monitoring purposes. Budgets of this type are deficient because there is no mechanism for assessing benefits from the reform process. Budgets based on inputs lead to narrow and cumbersome financial management systems, characterized by paperwork, detail, duplication, complexity, and inflexibility. They lack relevant information necessary for proper planning, efficient management, and monitoring of local government activities.

To facilitate monitoring, budgets should be designed to reflect current and projected expenditures on outputs (rather than inputs) or goals achieved or to be achieved. This may be a tall order, yet one that is necessary if operational efficiencies are to be met. Such identification involves the establishment of workloads or targets; for example, the policy decision may be to target a 5 per cent reduction in water line breaks at an average cost of X man-hours per incident or it may state that all garbage must be collected with a minimum amount of inconvenience to all residents at an average cost of \$Y per ton. Similar targets may involve a reduction in per capita fire losses of a fixed percentage at an average cost of \$Z per alarm or the completion of road maintenance that ensures smooth riding at a cost of \$K per kilometre.

Establishing targets or workloads provides measures based on both costs (efficiency) and returns (effectiveness). Workload targets should include the scheduling of work, development of an organizational structure, and procedures to reach the proposed plans. Alternative methods of achieving the volume of work to be undertaken should also be considered. Impact studies and cost benefit analysis of the options should be undertaken.

Once such targets or objectives have been established, the task of achieving these objectives begins. Workloads or targets must be defined in quantifiable terms (see discussion on performance measures below). Such quantification requires data on both inputs and outputs for it is the measurement of the ratio of inputs to outputs that defines the target to be achieved.

Estimates of workload and other performance indicators should be measured, established, and monitored periodically to make certain that targets are adhered to or that actual changes of a justifiable nature are incorporated into the budget. Periodic reporting also provides a basis for evaluating improvements or discovering deviations that must be corrected. These deviations might exist because of unplanned inflationary cost pressures, inadequate financial control, unrealistic revenue or expenditure estimates, and/or simply because of foolish management decisions. Once the basis for the deviation has been determined, municipal officials should either alter the targets or adjust their operation to achieve the previously stated objective. Finally, an independent audit by a firm or individual(s) not employed directly by the enterprise is necessary in order to guarantee that the objectives or goals have been achieved in an effective and efficient manner.

b. Accounting Bases

The basic difference between municipal (and other levels of government) accounting systems and personal/business accounting is the use of fund accounts (*Schaeffer, 2000b, at 15*). In conventional accounting systems, all monies go into one account from which all expenses are paid. A single set of accounts is usually sufficient to disclose transactions and details of financial conditions. Legal restrictions on the use of government monies, on the other hand, make co-mingling of monies an obstacle

to a clear demonstration of compliance with prescribed rules and conditions.

Under fund accounting, a separate fund is used to report financial transactions for a particular aspect or activity of government such as water or sewage operations. Fund accounting features self-balancing, double entry accounts from which a balance sheet and statement of operations can be prepared. Separate budgets are prepared for each fund.

The fund basis of accounting has two important advantages. First, it recognizes that a considerable amount of government revenue is not fungible – that is, available for purposes other than those budgeted – and that data on budgeting compliance are an important part of the stewardship responsibility of government. Second, distinct fund accounting and reporting is necessary to control resources for their designated use and to demonstrate compliance with legal and budgeting constraints affecting municipal governments (*Holder, 1996, at 174–175*). The funds that are used may be categorized into three basic types: i) governmental; ii) proprietary; and iii) fiduciary. *Table 5.3* defines these funds and their respective categories.

In essence, commonly used funds are those for general municipal activities, revenue funds for special activities, utility operations, sinking funds, capital funds, reserves, trusts and agency funds.

Since financial transactions associated with a specific fund are subject to legal or administrative restrictions, a reserve fund is used to record the proceeds from, for example, charges on specific properties or users and their application to designated capital works, while a utility fund would be used to report the transactions of a municipal service that has been set up as a self-financing department.

Cash, accrual, and modified accrual accounting form the three possible accounting bases that can be used for municipalities and their enterprises. As noted above, *cash accounting* involves the recording of expenditures and revenues when funds are actually disbursed or received. It is the simplest of the accounting bases but it is not recommended under generally accepted public sector accounting principles because it gives a misleading picture of municipal accounts. For example, cash received as

a loan would be reported as revenue in the operating statement but not as a liability on the balance sheet.

Table 5.3

Municipal Funds

Fund	Definition
Government Funds:	
General Fund	Consists of general revenue sources such as taxes, fines, licenses and fees. The general fund is usually the largest municipal fund.
Special Revenue fund	Consists of revenues that are resources for special purposes. Examples include transportation trust funds or senior government grants.
Debt Service Fund	Consists of resources used to repay long-term general obligation debt (general obligation bonds).
Capital Project funds	Consists of resources restricted for construction and acquisition of capital facilities.
Special Assessment Funds	Consists of resources received from special charges or fees levied on persons that benefit from a particular capital improvement project.
Proprietary Funds:	
Proprietary funds account for records of operation.	
Enterprise Fund	Contain financial records of self supporting operations (water and sewer funds).
Internal Service Fund	Account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis (building maintenance).
Fiduciary Fund:	
Account for assets held by a governmental unit in a trustee capacity (law enforcement fund).	

Source: Susan L. Riley and Peter W. Colby, *Practical Government Budgeting*, State University Press, 1991.

Accrual accounting is the more commonly accepted approach internationally. It records transactions when they occur regardless of when expenditures are made or funds received. For example, the cash expenditure to finance an investment in a fixed asset may take place within one year but the associated expenses reported in the financial statement of operations takes the form of annual depreciation charges incurred over the life of the asset. Since depreciation is a charge that is used to recover the

original cost of an asset and associates the annual flow of benefits with costs, it is incorrect to interpret depreciation as a charge to cover replacement costs since this would entail double counting. Moreover, the cost of asset maintenance and repair is recovered directly as an expense.

Modified accrual accounting is somewhat different. It adopts the same principles and approach as accrual accounting with the exception that depreciation and a return on capital are not included as costs. Instead, interest costs and principal repayments on debt are recovered directly in the year in which they are due through user fees and local taxes. These are generally set to generate revenues in excess of expected operating and maintenance costs and debt service costs, thus resulting in operating surpluses which are transferred to a capital fund to finance ongoing investments or into reserves or reserve funds to finance planned future investments. Because principal repayments are recovered directly each year as chargeable expenses, municipalities are less likely to face cash flow problems. Capital financing does not therefore depend on the flow of funds from a depreciation charge and a return on equity.

The adoption of accrual or modified accrual accounting does not suggest that absolutely every revenue source or expenditure item be accrued. For very small revenue and expenditure items, a simple recording on a cash basis along with proper notation of the approach followed may be sufficient.

Under both the full accrual and modified accrual accounting systems, the treatment of operating and maintenance costs is identical. As well, both systems can accommodate capital contributions from outside sources. In the modified accrual system, these take the form of grants from senior governments or transfers from the municipality's general revenue or reserve funds (such transfers are not customary where municipalities run utility operations on a self-financing basis). Under the full accrual-based system, capital contributions are normally equity injections from private or public sector investors.

The main difference between the two methods lies in the treatment of capital. As well, whether a municipality uses the modified or full accrual method of accounting can affect the timing and amount of costs that are

written off as expenses in a given year, and hence the timing and size of capital costs passed on to customers.

At the same time, the sum of principal repayments and the operating surplus in the modified accrual system can be equated to the sum of depreciation charges and retained earnings in the accrual system. These two sources of funds are similar and both accounting methods can be made to work effectively given the appropriate level of financial management.

Table 5.4 presents an overview of the differences between the two accounting methods. Currently, municipalities in some countries (Canada to name one specifically) are required to follow the modified accrual basis for accounting. However, given the ability to match benefits with costs over the service life of assets, and the importance of fully recovering costs each fiscal year, the full accrual method may present the greater opportunity to achieve the objective of service delivery related to equity (*PSSAB, 1998*). The adoption of this accounting standard, it should be noted, is not universally supported for local governments (*Beauchamp, 2000*).

c. International Experience

The PSAAB in Canada recommends accrual-based accounting based on historical cost for senior governments in Canada, but not local governments. The United States Federal Accounting Standards Advisory Board requires accrual-based accounting based on historical cost, but the U.S. Government Accounting Standards Board allows a non-depreciation renewal approach for the infrastructure of local governments. In New Zealand and Australia, accrual-based accounting is required, but an allowance is made for asset revaluation to offset inflation.

Interest in full accrual-based accounting for municipalities is generally motivated by concerns over the state of aging infrastructure and a lack of reliable information that could be used to evaluate the condition of this infrastructure. In New Zealand and the United States, these concerns have led to reforms in accounting standards for local government.

In 1993, the New Zealand Audit Office reported to parliament that it could not vouch for the long-term financial viability of local governments because there was no information on the condition of assets and inadequate strategic planning for future investment requirements. In response,

the Local Government Amendment Act (No. 3) was passed in 1996. Among other things, this Act required local government to adopt fixed asset accounting and to prepare and approve a long-term financial strategy every three years providing long-term financial and asset management plans (*Pallot, 2001*). Under the Act, depreciation charges are estimated and funded through local taxes and user charges. The depreciation charge provides an estimate of the decline in service potential of assets, while its funding assures that “users of the service pay the real cost” (*Office of the Controller and Auditor General of New Zealand, 1999*). Currently, local authorities are allowed to use the long run average cost of asset renewals as an alternative to depreciation charges. To use this approach, the local authority must develop a twenty-year capital plan. In the case of long life assets, the twenty-year plan has not provided a realistic estimate of the average annual renewals cost. Conversely, where a realistic depreciation charge is set and funded, local authorities have complained that very large reserve funds will accumulate long before they are needed.

Accounting reforms in the United States are similar (*ICMA, 2000*). The requirement for full accrual accounting by local government was established by the U.S. Government Accounting Standards Board (GASB) in *GASB Statement No. 34*, which concluded that reporting infrastructure assets is essential to provide information for assessing financial position and changes in financial position, and for reporting the costs of programs or functions (*Johnson and Bean, 1999*). Asset reporting requirements are retroactive to 1980 for large municipalities but not for those with less than \$10 million in annual revenues. As in New Zealand, an alternative approach is approved for infrastructure assets.

In the U.S., governments may choose to report expenses for repairing and maintaining infrastructure instead of depreciation expense for that infrastructure provided they manage the infrastructure using a suitable asset management system including an assessment of the physical condition of assets every three years; and establish a minimum condition level for those assets and demonstrate that it is maintaining those assets at or above that condition through appropriate investments (*GASB, 2001; and Patton and Wardlow, 1999*).

Table 5.4

Comparison of Accounting Approaches

Item	Accrual Basis	Modified Accrual Basis
Treatment of investment costs in statement of operations	An annual depreciation expense is included in costs over the expected life of the asset. The sum of depreciation expenses should equal the original cost of the asset less its scrap value. The annual depreciation charge does not correspond to any expenditure in the year for the asset in question.	The statement of operations will show actual capital expenditures for the asset drawn from the capital fund. Money in the capital fund is transferred from the revenue fund or a capital reserve fund, or it comes from newly issued debt or a capital contribution such as a grant.
Treatment of fixed assets in balance sheet	The original cost of the fixed asset is recorded when the asset is commissioned and this value is then reduced each year by the amount of the corresponding depreciation charge. At the end of its service life, the assets value goes to zero.	The value of the fixed asset does not appear in the balance sheet. Only current assets are reported (e.g., inventories, cash, accounts payable).
Treatment of long-term debt in statement of operations	Only the interest portion of debt service cost is reported as a cost but not the principal repayment. Principal is repaid using cash originating from depreciation charges and profit.	Both the interest and principal portion of debt service cost are reported as costs.
Treatment of long-term debt in balance sheet	Reported as a liability and diminished as principal is repaid.	Reported as a liability and diminished as principal is repaid.
Cost recovery through user fees and taxes (assuming no grants)	All of it in the form of depreciation charges. The period of recovery extends over the service life of the asset, which may be considerably longer than the repayment period of debt to finance the investment.	All of it in the form of principal repayments and transfers from the revenue fund to capital and reserve funds to finance the investment. The period of recovery matches the period of debt repayment and revenue fund transfers and actually commence prior to the investment when reserves built in advance.
Financing costs	Interest charges on debt and a return on the equity portion of the investment including retained earnings (if any).	Interest charges on debt.

Source: "Financing Water Infrastructure", by Strategic Alternatives et. al., Issue Paper 14 commissioned by the Walkerton Inquiry, Toronto, Ontario, Canada May, 2001, chapter 8.

Asset management planning figures prominently in both the New Zealand and U.S. approaches. In New Zealand it is mandatory, and in the U.S. it is mandatory so long as depreciation is not charged for infrastruc-

ture. As a source of information on the condition of infrastructure, asset management planning goes well beyond fixed asset accounting in that it requires an assessment of the physical condition of the infrastructure. Fixed asset accounting uses accounting standards and conventions as a basis for estimating depreciation charges, and therefore provides only a proxy measure of the condition of physical assets. Asset management planning goes one step further by developing a strategy and financing plan for asset maintenance and replacement. In contrast, fixed asset accounting generates cash funds that are available for capital finance, but this doesn't mean that they will be used for that purpose or that they are needed when received (*Jordan, 1995*). Asset management planning is therefore a more effective tool than fixed asset accounting as a means of providing information on the condition of infrastructure and the funding required for its maintenance. Financial accounting for fixed assets based on an accrual system of accounting can be useful but is not necessary for this purpose.

5.3.2. *Financial Reporting Practices*

In general, the following three objectives should be met in the financial reports produced by municipal governments (*Reyn, 1983, at 120; and Schaeffer, 2000b, at 15*).

- Financial reporting practices should provide information to determine whether current revenues are sufficient to pay for current year expenditures. This would improve transparency and provide an incentive for municipal officials to be accountable for their actions.
- Municipal financial reporting should provide information about the sources and uses of financial resources and about how the government financed its activities and met its cash requirements. Financial reporting should also provide information necessary to determine whether the jurisdiction's financial position improved or deteriorated as a result of the current year's operation.
- Financial reports should provide enough information for users to assess the ability of the municipality to meet future commitments. This should include information about the financial position and condition of the municipal government, about the physical and non-financial

resources that have useful lives that extend beyond the current fiscal year.

Requirements that municipalities report all budgetary information, the extent to which their budgetary goals were met and information on performance measures (discussed below) to the local citizens on an annual basis should improve the efficiency, accountability and transparency of local government activities. This reporting could take a variety of forms including mail outs to all residents; through tax and/or utility bills; notices in local newspapers; and postings on the municipality's website.

5.4. Performance Measures

Performance measurement is relatively new at the municipal level although its importance has been widely recognized for some time (*Hatry, 1999*). Developing performance measures is a three-step process that involves defining the purpose of the service or the program, determining outcomes and selecting performance measures for these outcomes (*Ministry of Municipal Affairs and Housing, 2004*). A performance measure, if correctly set, records the output rather than the input of municipal spending on specific programs or services. *Table 5.5* describes a number of municipal services for which performance measures could be calculated. Where performance measures are required, municipalities should also be required to report the results annually to taxpayers.

Implementation of a performance measurement system has a number of advantages. It permits local officials and taxpayers to monitor the municipality's public sector activities over time and vis-à-vis each other. This is often referred to as benchmarking (*Jog, 2000; and the Ontario Center for Municipal Best Practices, 2004*). It strengthens accountability because taxpayers will be in a better position to evaluate the services provided by the municipality given the cost of producing these services and therefore, in a better position to judge whether local service provision is effective and efficient. Performance measures reinforce managerial accountability (*Solano and Brams, 1996, at 164*) and provide an incentive to stimulate staff creativity and productivity. Finally and as mentioned earlier, performance measures help municipalities develop budgets based on realistic costs and benefits rather than on historical patterns (incremen-

talism). When combined with benchmarking, performance measures provide a more competitive environment in which municipalities operate, thus leading to more cost efficient ways of providing services.

Performance measures require accurate and complete data on input costs and measures of outputs. Input costs include the total cost of an activity. Measures of output, which is the denominator of the unit cost ratio (total costs divided by output), may be relatively straightforward for services such as sewage disposal, garbage collection, snow removal, and water provision – services in which the unit of output subject to quality standards can be measured. Output measures, however, are considerably more difficult to measure for education, social services, crime prevention and fire protection where the unit of output is not clearly defined. For example, what is the unit of output for education – number of students taught annually or number of students who passed? What is the output measure for crime prevention? How is fire prevention measured? What is the output measure for social services? Obviously, these are difficult measures to develop. In spite of potential measurement problems especially with the so-called ‘soft services’, attempts should be made to establish surrogate output measures subject to quality standards. Recognizing the subjectivity inherent in defining output measures for services of this nature, these are necessary if one is to establish targets or goals as benchmarks against which comparisons of actual performance may be measured to assess the technical efficiency and effectiveness of providing local public services.

Table 5.5

Examples of Performance Measures

Service Areas	Intended results	Definitions
Solid Waste Management: - Operating cost for waste collection	Efficiency of municipal waste collection services	Operating cost for waste collection per tonne or household (if tonnage information is not available)
- Operating cost for waste disposal	Efficiency of municipal waste disposal services	Operating cost for waste collection per tonne or household (if tonnage information is not available)

- Operating cost for recycling	Efficiency of municipal recycling services	Operating cost for recycling per tonne or household (if tonnage information is not available)
- Test Results	Effectiveness: municipal solid waste services do not have an adverse effect on the environment	Test results for solid waste disposal sites
Complaints concerning the collection of garbage and recycling	Effectiveness: municipal solid waste services meet household needs	Number of complaints concerning the collection of garbage and recycling per tonne or per 1000 households
- Waste diversion rate (a)	Effectiveness: municipal waste reduction programs divert waste from landfills and/or incineration	Percentage of residential solid waste diverted for recycling and tons of waste recycled
- Waste diversion rate (b)	Effectiveness: municipal waste reduction programs divert waste from landfills and/or incineration	Percentage of commercial, industrial and institutional solid waste diverted for recycling and tons of waste recycled
Sewage:		
- Operating costs for collection	Efficiency of municipal sewage and stormwater collection	Operating costs for collection of sewage and stormwater per kilometre of sewer lines
- Operating costs for treatment and disposal	Efficiency of municipal sewage treatment and disposal services	Operating costs for treatment and disposal of sewage and stormwater per cubic metre treated
Sewer-main backups	Effectiveness: municipal sewage-management practices prevent environmental and human health hazards	Number of sewer-main backups per kilometer of sewer line
Test results	Effectiveness: municipal sewage-management practices prevent environmental and human health hazards	Test results for sewage treatment operations
- Untreated sewage released	Effectiveness: municipal sewage-management practices prevent environmental and human health hazards	Number of hours when untreated or partially treated human sewage was released into a lake or natural water

Water:		course
- Operating cost for water treatment	Efficiency of municipal water treatment services	Operating costs for water treatment per million litres of water treated
Operating cost for water distribution	Efficiency of municipal water distribution services	Operating costs for water distribution per kilometer of distribution pipe
Approximate water loss	Effectiveness: minimize water loss	Percentage of water produced that is not billed
Test results	Effectiveness: water is safe and meets local needs	Test results for water treatment plants and distribution systems
Water leaks	Effectiveness: water is safe and meets local needs	Number of breaks in water mains per kilometer of water pipe
- Boil-water advisories	Effectiveness: water is safe and meets local needs	Number of days when a boil-water advisory issued by the medical officer of health and applicable to a municipal water supply was in effect
Transportation:		
- Operating cost for paved roads	Efficiency of municipal paved (hard top) road maintenance services	Operating costs for paved roads per lane kilometer
- Adequacy of roads	Effectiveness: safe and secure roads	Percentage of paved-lane kilometers of roads rated adequate
- Operating cost for unpaved roads	Efficiency of municipal unpaved road maintenance services	Operating costs for unpaved roads per lane kilometer
- Operating costs for winter control of roadways	Efficiency of municipal winter road maintenance services of roadways	Operating costs for winter control maintenance of roadways per lane kilometre
- Effective snow and ice control for winter roads	Effectiveness: safe and secure roads	Percentage of winter-event responses that meet or exceed municipal road-maintenance standards
- Conventional transit ridership per capita	Effectiveness: maximum utilization of transit services	Number of conventional transit passenger trips per person in

		service areas
- Operating costs for conventional transit	Efficiency of municipal transit services	Operating cost for conventional transit per regular-service passenger trip
Fire:		
- Operating costs for fire services	Efficiency of municipal fire services	Operating costs for fire services per \$1,000 of assessment
- Fire loss	Effectiveness: minimize loss of property due to fires	Total dollar loss due to structural fires, averaged over three years, per \$1,000 of assessment
Police:		
- Operating costs for police services	Efficiency of municipal police services	Operating costs for police services per \$1,000 of assessment
- Cases cleared	Effectiveness: safe communities	Percentage of cases cleared for each of the following categories: violent crimes, property crimes, other Criminal Code crimes (excluding traffic), Criminal Code traffic, drugs, crimes under other government statutes
General Government:		
- Operating costs for municipal administration	Efficiency of administration supporting local service	Operating costs for municipal administration as a percentage of total municipal operating costs
- Operating costs for council members	Efficiency of municipal council	Operating costs for members of council per capita and as a percentage of total municipal operating costs
Land Use Planning:		
- Percentage of new lots created	Effectiveness: new lot creation in settlement areas	Number and percentage of new lots approved that are located in settlement areas
- Percentage of agricultural land retained in an agricultural designation	Effectiveness: preservation of agricultural land	Percentage of agricultural land preserved

Source: Ontario Government, Ministry of Municipal Affairs and Housing, (January 2001) *Municipal Performance Measurement Program* (Ontario: The Ministry), at 8–10.

While technical efficiency¹⁴⁰ is an important ingredient of a performance measurement system, performance measurement also is used for measuring the effectiveness of municipal services. The term effectiveness measures the extent to which an activity contributes to the achievement of the stated goals, objectives, or targets. For example, an activity such as building a road may be very efficient in terms of cost per kilometer, but its effectiveness will depend on the usefulness of the road in providing convenience, safety, and economy for vehicular transportation. When a direct evaluation of the benefits arising from local services is not possible, the demand for services subject to quality standards might be measured through citizen surveys, studies of local economic conditions, reports on the number of applications, requests or complaints received, expert evaluations, and so on, of specific needs. In this way, a measure of the value of the service provided can be estimated. Thus, effectiveness will measure the success of not only doing things, but of doing them to citizens' satisfaction.

5.4.1. Process for Monitoring Municipal Reform

The preceding section described the type of information that is required to monitor the effectiveness and efficiency of municipal reform. It did not discuss the issue of what should be monitored; when should it start; and who should do the monitoring? In many ways, these issues are interrelated and some of them have been addressed, implicitly at least, in the preceding section.

What should be monitored? From the discussion in the preceding section, this question has already been answered. It is apparent that measures of outputs rather than inputs should be used as a basis for monitoring the success of any reform initiative. Outputs, for a variety of reasons already listed, provide the best base for assessing the success of a reform initiative.

¹⁴⁰ Technical efficiency measures the relationship between inputs and outputs. While this can be measured by the ratio of outputs to inputs (productivity ratio) or inputs to outputs (unit cost ratio), the latter tends to be used more commonly as an indicator of technical efficiency. An activity is defined as being more technically efficient if the output to input ratio rises or the input to output ratio declines.

When should monitoring start? Monitoring the impact of municipal reform should start as soon as possible, or as soon as data and information are available. Early and frequent monitoring has two distinct advantages. It provides time for a reform initiative to alter its direction or goal if the performance measures suggest that modification in direction or structure should be made. Second, early and frequent monitoring makes it easier to change direction if this is necessary to improve the municipal structure and its responsibilities. This kind of change is much more difficult to make once a particular structure and its supporting bureaucracy has taken root and become entrenched.

Who should do the monitoring? Should monitoring be the responsibility of local council; of an independent body set up by local council; of a senior level of government; or, of a separate agency set up by a senior level of government? If it is a separate independent body set up by local council or by a senior level of government, it has the potential to take on a life of its own and create the kinds of problems that tend to be created by special purpose bodies (*Kitchen, 1993; and Kitchen, 2002, at 270–274*). Of these possible options, the creation of an independent regulatory body operating at arms length from all levels of government with experts appointed jointly by local and senior levels of government and fully versed in financial, budgetary and operational details may best serve local citizens. Alternatively, municipal governments may appropriately handle the task as long as they follow proper budgetary, accounting and reporting methods set out by a senior level of government and applied in a standard manner across all municipalities.

Finally, the results of all municipal evaluations, regardless of who undertakes them, should be made public so that local taxpayers are in a position to determine whether the municipal governing structure and the services provided by it are delivered in an efficient, effective and transparent manner. Taxpayer feedback in this process is important and it may be obtained in a variety of ways including the use of focus groups, submission of surveys, opinions, and comments via post or email to the municipality's website.

Observations

Municipal government structures around the world 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 a 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, ei-

ther 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 structure does not, by itself, determine the success or failure of local economic activity 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 a national 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.

To properly monitor municipal restructuring and reform initiatives, municipalities need complete and correct data and information that comes from properly designed municipal budgets and accounting systems. In particular, this requires an emphasis on the importance and usefulness of designing budgets to reflect past and projected expenditures on outputs or goals to be achieved rather than on the cost of inputs. The establishment of targets or workloads (goals) permits local decision-makers to make decisions on the basis of both efficiency (costs) and effectiveness (returns).

Quantification of targets or workloads requires data on both inputs and outputs for it is the ratio of inputs to outputs that defines the target to be met. Once these targets have been established, municipal spending activities must be monitored to ensure that targets are met or that changes of a justifiable nature are incorporated into the budget. Implementation of a performance measurement system based on carefully defined targets has a number of advantages. It permits local officials and taxpayers to monitor the municipality's public sector activities over time and vis-à-vis each other (often referred to as benchmarking). It strengthens accountability because taxpayers are in a better position to evaluate the services provided by the municipality given the cost of producing these services and therefore, in a better position to judge whether local service provision is effective and efficient. Performance measures reinforce managerial accountability and provide an incentive to stimulate staff creativity and productivity. Finally, performance measures help municipalities develop budgets based on realistic costs and benefits rather than on historical patterns. When combined with benchmarking, performance measures provide a more competitive environment in which municipalities operate, thus leading to more cost efficient ways of providing services.

While the budget is the heart of municipal resource administration, municipal accounting systems and practices and their subsequent reports are central to the budget-making process. For example, past accounting records furnish important data for revenue and expenditure forecasts used to construct the budget. Accounting records provide information on debt and debt service charges and serve as a basis for estimating a municipality's ability to carry further debt. Sound accounting reports provide timely information on whether budget plans are on target or amiss, when capital funds are diverted to operating expenditures, when expenditures are outpacing revenues, and when the municipality is incurring financial obligations beyond its fiscal capacity. The focus of reporting and accounting, then, is to document, classify and summarize transactions so users of the resulting financial reports are able to understand and evaluate municipal operations.

Municipal accounting differs from private sector accounting because the emphasis in the former is on cash flow, and transparency and ac-

countability to the local constituency while the emphasis in the latter is on profit or loss reporting. The basic difference between municipal accounting systems and personal/business accounting is the use of fund accounts. Under fund accounting, a separate fund is used to report financial transactions for a particular aspect or activity of government such as water or sewage operations. The fund basis of accounting recognizes that most government assets are not fungible – that is, available for purposes other than those budgeted – and that data on budgeting compliance are an important part of the stewardship responsibility of government. Distinct fund accounting and reporting is necessary to control resources for their designated use and to demonstrate compliance with legal and budgeting constraints affecting municipal governments.

Cash accounting, accrual accounting and modified accrual accounting form three possible accounting bases used by municipalities. Cash accounting, however, is the weakest of these alternatives because it often fails to provide a true or complete picture of the financial health and fiscal sustainability of the municipality. This, and a concern that municipalities do not have reliable information on the age and quality of much of the local infrastructure (especially that which is underground – water and sewer pipes) has motivated senior levels of government in some countries to pass legislation requiring municipalities to move to full accrual accounting or a version of it that would provide local decision-makers with more reliable information for making efficient and effective decisions in managing municipal assets.

Finally, the monitoring process should start as soon as all necessary data and information are available in a uniform and consistent manner. This will permit and facilitate appropriate changes in direction (before they become entrenched) if it is decided that these changes are necessary to improve the local governing structure and operation.

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Chapter 6. International Experience with Delivering Municipal Services

Introduction

Recent trends where the municipal sector in most developed and developing countries has increased its reliance on own source funding and reduced its reliance on grants has been accompanied by a renewed interest in finding efficiencies and cost savings in the delivery of local government services. Alternatives range from provision by the public sector to provision by the private sector.

Public sector provision ranges from direct provision by the local council or city hall to responsibility assigned to an independent or quasi-independent special purpose body or local government enterprise. Special purpose bodies and local government enterprises have similar structures and objectives and are often referred to as business enterprises or just as, enterprises. Private sector alternatives include contracting out, franchises, grants, vouchers, volunteers, self-help organizations, and non-profit agencies.

This paper examines and evaluates a number of issues around these options by concentrating on the incentives and efficiency implications inherent in each structure (*Kitchen, 1993*) rather than on cataloguing their frequency of use. Where possible, it also provides a brief summary of the empirical evidence on cost differences under different structures.

Part 6.1 discusses public sector alternatives and part 6.2 considers private sector options. Part 6.3 is devoted to a discussion of public private partnerships, an innovative option that has recently received considerable attention in a number of countries. Part 6.4 summarizes the paper.

6.1. Public Sector Alternatives

This section compares the issues around service delivery through a separate local government body or enterprise versus delivery by the local government itself. As the reader will note, there are a number of important efficiency and accountability differences between the two structures.

6.1.1. Local Government Responsibility

Local governments are directly responsible for a range of public services in most countries. Many of these services are funded from local tax revenue, grants from senior levels of government, and other locally generate revenues. Services such as these include local streets and roads, street lighting, fire protection, neighborhood parks, local libraries and in some countries the list also includes education, police protection, and hospitals. In many countries, local governments are also responsible for services funded by user fees or prices – water, sewers, recreation, public transit and so on. Where local governments are responsible for the entire range of local services, local government staff and personnel generally share accounting, auditing and legal services, municipal employees and capital equipment. As for governance, locally elected councils are responsible for making policy decisions for all services including the trade-off between spending on one rather than another.

6.1.2. Local Government Enterprise

There is no single and uniform definition of what constitutes a local government enterprise or local business enterprise, but where it exists, it is generally responsible for the provision of a marketable good(s) or service(s) – one that has ‘private’ good characteristics and for which a fee or price per unit can be charged. This explains, partially at least, why electricity, water, sewers and public transit are often (but not always) the responsibility of local government enterprises or special purpose bodies; and why local streets and roads, street lighting, sidewalks, fire protection, and neighborhood parks – services that have ‘public’ goods characteristics and for which specific fees or charges per unit cannot be imposed – are the responsibility of local government itself.

Each enterprise generally operates as a separate functioning business entity – sometimes it is independent of the locally elected council and sometimes it is under some kind of governing control or affiliation with the locally elected council. The tendency is for each enterprise to be responsible for only one service (water or electricity or sewer and so on), although exceptions do exist. Usually, each body has its own independent or quasi-independent (from local council) governing body that is respon-

sible for all policies affecting the enterprise. Each has its own accounting and financial system, frequently its own work force and capital equipment, and is responsible for monitoring and reporting on its own activities.

In New Zealand, North America and Europe, local government enterprises are responsible for relatively few local services. Where they exist, there are generally no alternatives or no competitors. Services provided by enterprises include electricity, telephone, water and sewers, municipal airports, public transit, and social housing. In other countries, by contrast, local government enterprises are responsible for many more services – a number of them may compete with the private sector. For example, subnational governments in Russia have long looked to state enterprises to finance many essential services. In 1992, it was estimated that 40 percent of subnational budgetary outlays in Russia came from enterprise contributions (*Matinez-Vazquez, 1994*). In most one-company towns, the percentage was much higher, sometimes reaching almost one hundred percent. At the subnational level in Russia, for example, revenues from local enterprises are important because they help to finance basic services that might not be funded if left to the local tax base (*Bahl and Wallich, 1995, at 352*). A similarly important revenue-generating role for local government enterprises has been reported for Colombia (*Bird, 1984*).

Local government enterprises may be separated into those that operate without competitors, and those that openly compete with the private sector. For the former, there is only one supplier – a public sector monopolist. Water and sewers in a municipality, for example, are the responsibility of one agency – a separate utility or business enterprise, sometimes under the direct governance of the municipality and sometimes under the governance structure of a special purpose board/commission that tends to have features and characteristics similar to that of a separate business entity. Similarly, electricity is the responsibility of one agency as is public transit and so on. Furthermore, services with high infrastructure costs such as water, sewers, and electricity have characteristics of a natural monopolist. A natural monopolist often exists for local utility services (water, sewers, natural gas where it is a municipal responsibility). Their predominant characteristic for analytical purposes is that they exhibit de-

creasing per unit costs over the entire range of output (economies of scale).

Other services such as local public transit may not benefit from economies of scale over their entire output (not a natural monopolist) but they are, nevertheless, provided in a protected setting. In short, there is no competition for many of these services (electricity, water and sewers) and limited and indirect competition for others (cars competing with public transit).

For publicly provided goods or services that compete with the private sector, there is the question of whether or not the public sector should be involved at all. In response, there is no solid economic rationale for public sector provision, although their provision has been defended on the basis of generating revenue for the local government. Examples include public sector involvement in bakeries, paint shops, flower shops, sports clubs, mushroom growing and handicraft businesses in Russia (*Kurlyandskaya, Nikolayenko, and Golovanova, 2001*).

6.1.3. Why are Local Government Enterprises Used?

A variety of arguments have been advanced in defense of using special purpose bodies or local government enterprises for specific services.

First, in some countries or provinces/states/regions within countries, legislated requirements stipulate that specific services must be the responsibility of a separate body or enterprise, generally under a governing structure called a commission, board or utility. This is the case for municipal electricity distribution in the province of Ontario in Canada where all policy decisions are made by either a private corporation or municipally appointed Board of Directors operating at arms length and independent of local council.

Second, where local governments are free to choose their governing structures for the provision of local goods and services, tradition often plays a role in relying on separate enterprises – it has always been done this way and there is no reason to change.

Third, these bodies have been defended on the grounds that appointed or elected officials governing single purpose enterprises will make better decisions than directly elected municipal politicians who must make

decisions, choices and trade-offs over a vast range of local government functions. A single purpose governing council, the argument goes, is more likely to consist of experts and therefore, able to make better decisions when compared with locally elected politicians and government officials who have heavy workloads and insufficient time to plan, administer, and oversee all governing functions. This is supported by those who assert that financially independent public utilities are generally well-run, honest and efficient, while utilities governed by local councils are alleged to be markedly worse in each of these respects and likely to be run at a financial loss.

Fourth, enterprises are used in some countries as a way of escaping rigid controls (by a senior level of government) that apply to what and how local governments spend, who it employs for what, how much it pays them, which revenues it can access, on what terms it may borrow and so on?

Fifth, local government enterprises may be preferred in those countries where senior levels of government share in local tax revenues but do not share in revenues generated by local enterprises (*Matinez-Vazquez and Boex, 2001, at 38*).

Sixth, these bodies are used in some countries to provide employment. Seventh, often there is a perception in the minds of many politicians and a large proportion of the population that local business enterprises are more efficient and accountable in their operation because they are run more like a business – they deliver a product, sell it, retain the revenue and cover all costs – when compared with other municipally provided services that are not sold for specific fees, charges or prices.

Finally, local politicians and administrators sometimes prefer business enterprises because there are fewer citizen complaints about revenues generated from the sale of goods and services by what is deemed to be a business enterprise than from increasing local taxes to raise the same amount of money. More bluntly, it seems to be more acceptable politically to set up a local business enterprise and sell a good or service to raise revenues than to raise local taxes. Generating revenues from the sale of goods and services by local government enterprises may also be preferred if municipal governments face legislated requirements against their ability to raise taxes.

6.1.4. Criteria for Evaluating Local Enterprises

To evaluate the role for these bodies and how they should be structured, one needs a set of criteria. For this purpose, the following are appropriate: economic efficiency, transparency, accountability, and ease of administration. These are the same criteria that are used in evaluating municipal finance issues. Their application in local service delivery, however, differs somewhat from their application in local financing issues. Issues of fairness are important but of little relevance in this discussion. Fairness is associated with the way in which specific services are funded (benefits received arguments) or with income distribution issues (ability to pay arguments) and not with the agency (enterprise or local government) responsible for the service.

Economic Efficiency: This is achieved within the local public sector when all service responsibilities are organized and allocated so that society gets the greatest possible gain from the use of all resources (inputs) at its disposal. In other words, if reliance on local government enterprises leads to the use of fewer resources than would be required if the same service were provided directly by local government, then it would be more allocatively efficient to provide the service by a local enterprise because society would be better off collectively. Economic efficiency is more than technical efficiency – the latter is a necessary but not sufficient condition for economic efficiency. Technical efficiency exists when a producing unit (firm, government, commission) operates in a way such that it is not possible to secure any additional output given the available inputs (labour, material and capital) and level of technology. In other words, technical efficiency is achieved when the output per unit of input is maximized or the cost per unit of output is minimized. This, it should be noted, is not concerned with whether one good or service generates more or fewer net benefits than another good or service. It simply concentrates on the efficient employment of inputs in the production of a specific good or service. Finally, as the level of technology advances, a technically efficient production process leads to increased output with the same inputs.

If, on the other hand, the existence of one or more enterprises provides barriers or impediments to efficient local public sector decision-making

and leads to a greater use of (waste) resources, local enterprises could be deemed to misallocate resources and be more costly to society collectively.

Accountability: In the provision of local public sector services, accountability is achieved when the customer/taxpayer is able to identify who is responsible for what and is able to link the governing unit responsible for the service directly to its funding. Where there is only one governing unit, taxpayers know who is responsible for what and who to contact if they wish to have an impact on decision-making. Where there are a number of local governing units responsible for a diverse range of services, customers/taxpayers may become confused and not know who is responsible for what and how to have an impact on decision-makers.

Transparency: This is achieved when citizens/taxpayers have access to information and decision-making forums so that the general public knows what is happening and able to judge whether it is appropriate. Vehicles or instruments for enhancing transparency should include legislation that requires public sector decision makers to consult with and report to the public annually on planned activities; enforcement of regulations by officers, and purchasing of inputs through contractual arrangements with internal staff or the private sector. This could include the annual publication of local public sector performance measures, thus providing local citizens with information for making intermunicipal efficiency and effectiveness comparisons. All of this is intended to mitigate the risk of corruption by making information statutorily available and by ensuring that all public policy decisions are made in an open and transparent manner (*IMF, 2001*).

Ease of Administration: This is an extension of the criteria of efficiency and accountability. The easiest system to administer is one that is not confusing and does not require an unnecessary amount of time and effort in consultations, correspondence, and meetings in reaching decisions.

6.1.5. Do Local Government Enterprises Play a Unique Role?

Does a local government enterprise perform a service delivery role or function that cannot be performed or not performed as efficiently by the

local government (local or municipal council) directly? Based on the above criteria, some light may be shed on this question. At the outset, it is asserted that the best and most socially desirable governing structure is achieved when locally elected councilors have decision-making responsibility for all local goods and services regardless of how they are delivered. The importance of distinguishing between decision-making or governance and service delivery has been emphasized by a number of authors and in a number of reports (*Savas, 1987, at 6; Osborne and Gaebler, 1992; Kolderie, 1986; Wunsch, 1991; Ostrom, Schroeder, and Wynne, 1993; Batley, 2001, at 202; and The World Bank, 1994*). Perhaps this is illustrated best by pointing out a variety of problems – real and potential – that frequently emerge when some local public sector decision-making powers are the responsibility of local government enterprises. For example, if a local government enterprise can make policy-decisions and has funding control over specific goods and services and if it operates independently or semi-independently of the locally elected council that is responsible for a range of other goods and services, there is less incentive or possibility that local public sector efficiency, transparency and accountability will be achieved. As well, if additional resources and time are wasted on reaching agreements and coordinating policies between these competing governing units, the system will be more expensive to administer than it should be.

As noted earlier, support for local government enterprises rests, partially at least, on the assertion that individuals appointed or elected to an enterprise's governing board can govern more efficiently and effectively than locally elected politicians who are responsible for a range of local public sector goods and services. These services, it is argued, must be kept free from political interference. This approach to municipal government as basically corrupt and unrepresentative of consumer demands, however, is a poor principle upon which to organize municipal service responsibility.

Furthermore, arguments supporting 'removal from politics' seem to be an attempt to substitute special politics for general politics or a withdrawal from the struggle to change the political decisions of the community. And if politics is understood in the pejorative sense of partisan or

personal patronage and influence, the independence of local government enterprises does not guarantee freedom from spoils but rather opens possibilities for methods of self-enrichment of their own. Technical specialists in many functions and their respective supporting groups of citizens may believe that their function is so important to the general welfare and the methods involved so technical that their objectives can be accomplished only if they are protected against interference by non-professionals (*Bird, 1980, at 30*). Practical politics, however, involves a compromise in the decision-making process. Experts and special interest groups should be available for advice on such decision-making, but they need not be responsible for policy. In cases in which the proponents of an activity find the existing political situation distasteful the tempting alternative of avoiding involvement must be resisted in favor of seeking basic political improvements.

Another dubious contention by advocates of local government enterprises is their assertion that funding specific goods and services from user fees/charges or prices is more business-like, and therefore preferred, if conducted by an independent or semi-independent business enterprise rather than if funded in the same manner but under the governance of a locally elected council. Such an argument overlooks the essentially political nature of decision-making with regard to many services supported in whole or in part by user charges or public sector prices. There is no reason why a user-supported service cannot be operated on a business-like and self-sustained basis under a department at city hall.

The existence of a number of independent and semi-independent enterprises complicates local government to the point where citizens cannot understand its structure or determine who is responsible for what. The weakening of municipal councils through removing some of their responsibilities, combined with the inability of citizens to understand government (who is responsible for what), results in a loss of accountability, a lack of transparency and reduced public interest in local government. As the municipal organization becomes more diffuse it becomes less accessible to political control. Also, the agencies into which local government is fragmented are often only indirectly responsible to the public, particularly if its members are appointed. Fragmentation of government into

separate enterprises further complicates the problems of administrative integration and co-ordination.

Bringing all governance and policy-making decisions for local enterprises under local council governing responsibility (day to day management should be left to the managers regardless of the governing structure) has been criticized, however, because local politicians in some countries apparently use these enterprises as places of employment for relatives, friends, and cronies. If governing responsibilities for enterprise operations were left with local enterprises, it has been suggested that these potentially inefficient and unfair employment practices could be minimized. There are at least two reasons why this might not be true. First, there is nothing inherent in the governing structure of either a local government enterprise or local council operation to suggest that either agency is more or less susceptible to this type of employment abuse. Second, where this is a problem, its resolution should involve the implementation of fair, effective and transparent employment policies that prevent this kind of nepotistic behavior.

Of the enterprises that exist, many enjoy considerable autonomy and financial independence. In fact, there is a tendency for them to become little governments in themselves with the inherent characteristic that they are independent and in no way subordinate to the elected municipal politicians. This can lead to an environment over which residents/taxpayers have little control and hence, is politically inefficient. For those that are funded partially by grants or local taxes, there is often no direct link between the policy-making body (that is, the body making the expenditure decisions) and revenues (local taxes) that are collected by municipal councils and must be used to fund these agencies. Whenever expenditure and revenue decisions such as these are made independently, the system is likely to be less accountable or transparent (*Bossons, Kitchen and Slack, 1993*) and unable to allocate its resources efficiently across all competing municipal services. For those that are fully funded from sales of their output, there is greater likelihood that they will become independent and more removed from the governing decisions of local council.

When a large number of independent single purpose enterprises exist, co-ordination of inter-related activities is difficult and, in some in-

stances, impossible to achieve (*Kitchen, 1989, chapters 8 and 9*). Attempts by locally elected politicians to provide services are frequently thwarted or made more difficult because of decisions made by these independent enterprises over which the politicians have little, if any, control. For example, actions taken by electrical utilities, water and sewer utilities, and public transit authorities may conflict with council's overall planning effort.

This institutional structure, which may be referred to as a 'localized monopoly', creates a potential impediment for pursuing competitive forces if municipal councils are prevented from making all decisions affecting the local municipality in the most accountable, transparent and efficient manner. This may happen, for example, where a municipality defers all decisions over spending and funding until a local government enterprise has determined its level of spending and funding. For example, a decision by a separate water utility (enterprise) to replace or rehabilitate a water line or sewer main (underground services) may affect a municipality's timing for resurfacing or improving a local road or street (above ground services). This, in turn, may affect the way (both in terms of timing and choice of competing alternatives) in which the municipality allocates its resources to other municipal services. Problems like this have been observed in two studies in the province of Ontario, Canada. One study measured the extent to which local School Board spending or increases in spending and hence, the need for local property taxes or property tax increases, crowded out other municipal spending and the need for local property taxes or property tax increases. The second study measured the extent to which spending by local Police Commissions/Boards crowded out other municipal spending. At the time of these studies, both School Boards and Police Commissions were mandated by the province but they operated independently of municipal councils. Both set their own budgets and determined their own property tax requirements. Local councils had no control over their property tax requisitions. Crowding out occurs when municipal councils do not raise and even reduce their property tax requirements for their expenditure responsibilities if the expenditure decisions of school boards and police boards have resulted in higher property taxes for these services. Both studies found evidence of crowding out;

that is, increased property taxes for schools (*Tassonyi and Locke, 1994*) and police (*Knapton, 1993*) brought about lower property tax requirements for other local services.

Similarly, if a decision by a local enterprise to borrow in order to finance the rehabilitation or provision of new capital infrastructure crowds out or inhibits the local council's ability (perhaps because of debt limits) to borrow for other capital projects, then resources are not allocated efficiently. In general, where municipal councils are directly responsible for a service, there tends to be greater pressures towards public accountability (*Kitchen, 1975*) and political responsibility. Greater public accountability leads in turn to greater pressure to reduce costs (*Kitchen, 1976*), improve efficiency, and justify expenditure increases. When compared with governance under a municipal council, most enterprises are free from the limelight of major municipal elections and consequently further removed from these important political pressures. The elections of commissioners, where elections rather than appointments occur, are generally dull affairs that go virtually unnoticed by the public and often result in acclamations. Voter apathy develops in municipal elections but the general desire to control costs at city hall extends to all departments, whereas such pressure is less frequently exerted on a separate enterprise. Partly for this reason, many governing boards for local enterprises slip into the 'rubber stamp syndrome' and allow policy decisions to stem from dominant, technically competent managers (*Kitchen, 1993*).

Connected with the idea of political accountability is the financial flexibility available to each type of organization. A sufficient degree of political leverage and direct accountability to the public must be maintained over the governance of local public services; otherwise, strong temptation exists for these organizations to engage in unwarranted expansion or to invest in new assets that are far out of line with investment in other municipal functions. Municipal council operations appear to satisfy such a condition much more than separate a local enterprise operation, *and the latter's financial freedom may permit greater indulgence in empire-building* (*Kitchen, 1975*) and wasted expenditures.

An important source of economies available to municipal council run operations and often not available to single purpose enterprises comes

from the opportunity for certain personnel, facilities and capital equipment to be engaged in multiple functions. Some of these economies are identified as follows. First, municipally provided services may share office space at city hall, whereas separate enterprises are generally established in separate buildings or they have their own separate space in the same building. Second, a municipally governed service easily shares administrative and operational tasks with other departments at city hall (for example, accounting and legal services), whereas separate enterprise operations tend to set up their own administrative and operational facilities. In the latter structure, economies of scale and cost savings are less likely to be achieved than in the former structure. Third, opportunities exist for pooling capital equipment and labor in city-governed operations. This permits a reduction in idle hours for capital and labor through the opportunity to transfer personnel and equipment to different functions as need arises. As with many of its departments, city hall can achieve economies of scale in the use of unspecialized personnel and equipment. This source of savings is more important for smaller than for larger municipalities, since the smaller-scale operations are much more likely to encounter indivisibilities in capital and labor inputs. Local government enterprises, on the other hand, have a tendency to acquire a separate complement of labor and equipment and these inputs are not used, as a rule, for other municipal government functions. In many instances, especially for capital equipment, there is considerable down time and lack of use of some of the capital equipment (*Kitchen, 1975; and Armstrong and Kitchen, 1997, at 134–139*).

In summary, the economic and political arguments in support of independent and autonomous or semi-independent and semi-autonomous local government enterprises are generally weak. They do not appear to contribute anything that is unique. Their existence creates or has the potential for creating decision-making problems and unnecessary costs both for local governments and local residents. Elimination of local government enterprises should improve the extent to which local public sector efficiency, accountability, and transparency could be improved. Certainly, it would remove the confusion over who is responsible for what and allow local councils to set priorities and weigh and consider the

trade-offs necessary in making decisions on the relative merits of spending on water and sewer systems versus roads versus public transit versus police versus fire versus local parks and so on.

All of this assumes, of course, that we are operating in a first best world and that the current decision-making structures could be changed. Unfortunately, this may not be possible for many enterprises and in many countries. Local government enterprises are solidly entrenched in local public sector services. And they will continue to be used even though they have declined in importance in some countries over the past decade largely because of the types of decision-making problems described above. The province of Ontario, Canada, is an example of this decline. Here, the reliance on utility commissions (local enterprises) for water provision declined from 112 separate utilities in 1990, to 41 in 2000, and 15 in 2001 (*Sancton and Janik, 2001, Table 3*).

6.1.6. Governance of Local Government Enterprises

Even though arguments in support of local government enterprises are not strong, these enterprises will continue to be responsible for a range of local goods and services in many countries. The discussion here, then, concentrates on policies designed to improve the efficiency, accountability and transparency of the governance structure of these agencies.

Governance refers to the political body responsible for making all policy decisions. It does not refer to the day-to-day management of local government or its enterprises and it does not refer to service delivery because this may be handled in a variety of ways. In New Zealand, for example, it is legislated that policy-making responsibilities of elected municipal councils must be 'decoupled' from day-to-day management of the authority (*Pallot, 2001*).

Since a major objective of the local government sector should be to design an overall governance structure that, in principle and as closely as possible in practice, meets the criteria described earlier, it is best achieved if all local public sector decision-making powers are left with a democratically elected local council. In effect, then, a case exists for governing all special purpose bodies by the same body that governs city hall. This creates an environment where it would be easier to coordinate all municipi-

pal services and functions and it would minimize instances where the policies of local enterprises conflict with policies of local councils. In principle, a system where local councils have responsibility for making decisions on the appropriate trade-offs to be made over all local expenditures reduces the possibilities of conflict between certain local agencies seeking to promote their own special interests and the municipality attempting to hold the line on taxes, restricting expenditures, or altering expenditure choices among those services over which it does have substantial control.

Putting all municipal public policy decision-making powers – including those that are politically sensitive and those that are not so politically sensitive – under council control should improve local accountability and responsiveness to the tax-paying public (*Metropolitan Toronto, 1988; and Stenning and Landau, 1988*). When one stops to think about it, an independent body in charge of a basic service such as water, sewers, electricity, police, and so on, that can set its own rates or determine its own property tax requirements, determine its own policies, and formulate and approve its long range plans, has considerable control over the range of other municipal services and how a community is governed, and how and where it develops residentially, commercially, and industrially.

6.2. Private Sector Provision

Private sector options include contracting out, franchises, grants, vouchers, volunteers, self-help, and private non-profit agencies (*Savas, 1982; and Hatry, 1983*). Public-Private partnerships have recently grown in interest as an acceptable option for funding services, especially where there may be substantial capital or infrastructure costs (*Hrab, 2003; Grimsey and Lewis, 2004, and 2005*). Since each of these creates a unique service delivery option, their potential efficiency strengths and weaknesses are discussed.

6.2.1. Contracting out

In the Great Britain, local authorities are now required to enter into competitive tendering for the provision of municipal services. In New Zealand, legislation introduced in the early 1990s had a significant impact

on the way services were provided but it does not go as far as Britain in requiring mandatory competitive tendering. In New Zealand, delivery exclusively by local council departments declined from 70 percent in 1989 to 26 percent in 1994 while delivery by business units rose from 2 percent to 18 percent (*Department of Internal Affairs, 1994*). The core services of water supply, sewage systems, stormwater and drainage are delivered by business units in over 50 percent of the councils while the majority of councils that provided legal services, refuse collection, commercial forestry and refuse disposal use external providers (*Pallot, 2001*).

Contracting out through competitive tendering improves the competitive environment and leads to lower per unit operating costs for the delivery agent. Contractors face positive incentives to be efficient and negative sanctions if they are not. Competition raises the possibility that a firm may fail through bankruptcy. Fear of this creates an incentive for a firm to build a reputation for delivering quality products and services that consumers want to purchase (*Shleifer, 1998, at 139*). The possibility of failure also provides incentives for a firm's managers to ensure that the firm operates in an efficient manner (*Hrab, 2003b, at 9*). Competition means that prices of competing services can be used to monitor the performance of management (*Yarrow and Vickers, 1988, at 68*). Competition in the market for a good or service also creates a competitive market for managers as firms compete with each other to retain valued personnel (*Trebilcock, 1994, at 9*). This, in turn, provides managers with incentives to build reputations as efficient performers in order to command premium compensation packages (*Hrab, 2003b, at 9*).

Government provision, by comparison, almost always exists without competition. Government managers don't have the same incentives to operate efficiently because consumers have no alternatives. This weakens the need to control costs and minimizes the incentive to introduce innovative practices and techniques (*Shleifer, 1998, at 139*). In fact, it has been suggested that the lack of market discipline, when combined with the potential for allocating resources for political purposes, almost certainly makes government monopolies more socially wasteful than private monopolies (*Hrab, 2003b, at 9*).

There are also situations where governments compete with the private sector. In the state of Victoria in Australia, for example, the state government has mandated that at least fifty percent of council expenditures be subjected to compulsory competitive tendering (CCT). This has led to contracting in or out of virtually every service under local council responsibility. In most cases, local governments have created in-house units to compete with the private sector for service provision. Contracting also applies to governments that contract from each other and contract with non-profit and voluntary organisations (*Bish, 1986, at 217*). Where governments contract with each other or where they compete for contracts with the private sector including volunteer and non-profit agencies, it is important that the local government face a hard budget constraint; that is, the government or its enterprise must *not* be protected from going bankrupt. A hard budget constraint is critical if incentives created by competition are to be achieved (*Trebilcock and Iacobucci, 2003, at 1428*).

Contracts are typically awarded on a competitive tendering system where the lowest bidder is normally chosen. In addition, some jurisdictions have adopted a policy whereby regions, counties, cities, or metropolitan areas are subdivided and contracts tendered for a series of sub-regions or areas for those services where economies of scale do not exist. This is to encourage smaller firms to bid on contracts – a situation that would not arise if all contracts were large – and to permit, in some cases, municipal crews to compete with the private sector in securing a contract. This creates a stimulus for increased competition and ultimately, cost savings and greater efficiency. In fact, in some cities in the United States, it is not uncommon to see municipal government employees competing with the private sector for service delivery responsibility. A well known example is in the City of Phoenix where the city is divided into sections so that the private sector can compete with government employees in bidding for the management of solid waste services. This kind of competition has produced considerable cost savings and efficiency gains along with enhanced service levels (*Goldsmith, 1997 and 1998*).

The most successful contracts are those based on outputs that can be measured (solid waste, recycling, and so on) primarily because it is easier to monitor the quality of the output. Writing contracts in terms of

outputs rather than inputs leaves the contractor free to organize the operation to attain output goals or targets in the most efficient way possible (*Bish, 1986*).

Recent trends towards developing higher quality and lower cost services has increased reliance on performance based contracts; for example, in the United States, the Office of Federal Procurement has established a goal of having 50 percent of service contracts performance based by 2005 (*Hrab, 2003, at 21*). A performance-based contract requires that specific goals or targets be met (*Moore and Hudson, 2000*). For services such as garbage collection and disposal, this is relatively straight-forward; for many other services, however, desired outcomes are not as clear-cut and conflicting objectives often emerge. This suggests that local governments carefully evaluate the goals and objectives to be achieved for each service before considering whether contracting out may be a viable instrument for its delivery (*Siegal, 1999*).

To measure performance, governments should incorporate incentives into contracts that elicit quality and cost efficiency. The most common incentives include the following (*Hrab, 2003, at 22; Moore and Hudson, at 27–29*). First, scaled rewards are used when local governments increase their payment to the contractor when specific goals or targets are reached. Second, when contracting out leads to cost savings for local governments, the contractor receives a share of the savings. Third, performance penalties can be imposed on the contractor when specific goals or targets are not achieved. Fourth, a fixed price per unit of service (capitation payment) can be paid to the contractor by the local government when specific goals, targets, or outcomes have been met.

Once a contract has been negotiated, it needs to be monitored and enforced. Difficulties with monitoring depend, to a large extent, on how well the goals and targets can be articulated and how well the contract has been negotiated and constructed. For services with clearly defined outputs (tonnes of garbage collected, kilometres of road serviced, number of patients treated in hospitals, volume and weight of material recycled, and so on), monitoring is much easier than it is for services without such clearly defined outputs (number of fires prevented or number of crimes prevented). Even where outputs can be measured, the quality of service

must still be monitored. This is much more of a challenge but it may be no different than monitoring that the local government would have to do if it provided the service itself.

Monitoring may take a variety of forms including on-site supervision, audits by government officials or a private sector firm, responses to questionnaires (mail surveys, telephone surveys, exit surveys, e-mail surveys), interviews (customer focus groups, in-depth interviews), and ongoing input mechanisms (toll-free numbers, suggestion boxes, response cards). Some recent evidence suggests that governments (at all levels) in many countries either do not monitor private sector provision of public services or the growth in their monitoring activities has fallen behind the growth in contracting out (*Hrab, 2003, at 23–26*). For local services that go through an arms-length and corruption free tendering process, there is no *a priori* reason to believe that local government monitoring will be any more effective or efficient than a policy of competitive tendering on a relatively frequent basis (annually, bi-annually or every three years, for instance). Tendering, by itself, can create an incentive for a firm to maintain quality and meet required goals and targets if it wishes to be a candidate for continuation of its contract at the time of rebidding.

Most of the empirical work on contracting out suggests that per unit operating costs are lower in privately run operations. While the bulk of these studies have been completed in the United States and Europe (*Borcherding, Pommerehne, and Schneider, 1982; and Hike, 1992*), similar studies have been conducted in other countries. In New Zealand, for example, cost savings from contracting out are reported to range from 45 percent to 60 percent in the case of refuse collection in the city of Dunedin, to 15 percent to 30 percent for other services in Dunedin and the city of Christchurch (*Douglas, 1994; and Williamson, 1994*). In Canada, there are also a number of studies on a variety of services (solid waste collection, recycling and disposal, public transit operations, and electrical utility maintenance) that provide similar results – these are reported in *Table 6.1*. Similar results have been noted in an examination of private sector involvement in three urban services (waste collection, water, and electricity supply) in developing countries (*Batley, 2001, at 219–221*). A further study that compiled the results of 203 separate studies on contracting out

(without regard to whether public sector units were invited to bid) concluded that savings in the order of 20 percent were most frequently reported without any sacrifice in the quality of service (*Domberger and Jensen, 1997*). Finally, a critical assessment of several studies concluded that the private sector is more efficient in refuse collection, fire protection, cleaning services, and capital intensive wastewater treatment, while results are less conclusive for water supply and railways (*Tang, 1997*).

Briefly, the conclusion of these studies is that most of the efficiency gains from contracting out have resulted from an increased scope for competition rather than from the fact that the service was provided by a private contractor (*Bish, 2001, at 15; Donahue, 1989; and Johnson, 1988*). For a recent and practical example of the importance of competition and pricing, see the discussion in Box A.

In addition, the results suggest that where economies of scale are not prevalent, the creation of delivery zones creates a more competitive environment than exists when there is only delivery agent for entire municipality (*Bartone, 2001, at 219*). Introducing or increasing rivalry, however, may not be possible without the existence of some private ownership. In other words, some degree of privatization through contracting out may be a necessary but not sufficient condition for substantial performance improvements (*Vickers and Yarrow, at 117*).

Although most of the studies have concentrated on contracting out individual services, there is some experience in the United States with cities that contract out most service responsibilities. These cities have formed an Association of Contract Cities and are mainly concentrated in California. This group has generated a highly competitive local service environment with a vast network of producers and contract arrangements. Cities buy and sell to one another and private firms compete actively among themselves and with government producers for contracts (*Bish, 2001, at 213; the Frontier Centre, 1997*). One empirical analysis of these contract cities indicated that they received services at lower cost than the non-contract cities in Los Angeles County (*Deacon, 1979*).

Table 6.1

Private versus Public Sector Delivery in Canada

Services Studied: author/year	Delivery Alternatives	Results
1	2	3
Bus Service: (<i>Kitchen, 1992</i>)	Municipal dept. versus privately contracted service in Ontario municipalities.	Significantly lower costs per km. under privately contracted operation
Electric Utility Maintenance: (<i>Kitchen, 1986</i>)	Utilities contracting out utility maintenance vs. in-house maintenance in Ontario municipalities	Contracted out service significantly less expensive
Refuse Collection: (<i>Kitchen, 1976</i>)	48 Canadian cities – municipal versus privately contracted firms	Municipal suppliers more expensive than private firms
McDavid, Richards & (<i>Doughton, 1984</i>)	Comparison of costs before and after Richmond, B.C. switched from public to private collection	Residential solid waste collection fell from \$46.24 per household in 1982 to \$30.63 in 1983
(<i>McDavid, 1985</i>)	Survey of private collection versus municipal collection of residential solid waste in 107 Canadian municipalities	In municipalities with sole delivery agents (public versus private), collection was 51% more expensive in municipal operations. In municipalities with a mix of public and private, the public sector was 12% more expensive. Differences attributed to much higher productivity in private operations
(<i>Tickner & McDavid, 1986</i>)	Detailed survey information on output, inputs and costs for private vs. public collection of residential waste obtained from 100 municipalities	On average, private collectors were 28% less expensive
(<i>McRae, 1994</i>)	Comparison of charges for collection of commercial / industrial solid waste in 3 communities on Central Vancouver Island	Depending on the size of container and frequency of pickup, municipal services were between 16% and 67% higher than private sector prices

<i>(McDavid and Eder, 1997)</i>	327 questionnaire responses to survey on solid waste collection services in Canadian municipalities	For all of Canada, government collection was 22.3% more costly per household than private contractors
<i>(McDavid, 2001)</i>	327 questionnaire responses to survey on solid waste collection services in Canadian municipalities	<ul style="list-style-type: none"> - On average, public producers have higher costs than contracted private producers; - In municipalities where collection is split between private and public, both have lower costs than the national average and private producers are lower than public producers; - Municipalities that competitively bid their solid waste collection contract enjoy significantly lower costs per household
Landfill Sites: <i>(McDavid and Laliberte, 1998)</i>	Comparison of operational cost of 72 public and private landfill sites across Canada	Operational costs of privately run operations was lower – \$15.75 per tonne compared to \$23.48 per tonne
Residential Recycling: <i>(McDavid and Laliberte, 1999)</i>	Private versus public sector comparison of 132 recycling agents	Net cost per tonne is virtually identical for public and private producers except in 7 communities where public and private producers compete directly. Here, substantial cost savings were reported for private producers when compared with public producers

An illustration of the impact of pricing and competition

An example of the importance of competition in affecting costs and hence, the price or tax paid may be drawn from the recent experience in pricing for garbage in Clinton, a small town in south-western Ontario. Nearly a decade ago, the town implemented a per-bag charge for garbage collection. The initial impact, as in most jurisdictions that have implemented 'pay-as-you-throw' garbage collection, was that the number of garbage bags put out by households declined by roughly 50%, while the weight of their garbage fell by about 25%. Households reduced their garbage collection charges by packing garbage bags fuller and tighter; but they also began recycling more of their bottles, cans, cardboard, plastic, and newspapers.

The initial charge for the pay-as-you-throw program was two dollars per bag. Residents had to buy stickers from the town hall and affix them to their garbage bags. Shortly after this started, an enterprising resident figured he could make a profit by collecting town garbage for only one dollar per bag as long as he had access to the town's landfill site on the same terms as everyone else. The town was not pleased with this challenge to its monopoly. It tried several ways to thwart this entrepreneurial effort, but to no avail. Finally, the town was forced by the simple threat of market competition to lower its charges to only \$1 per bag, the same fee charged by the private collection service.

In the autumn of 2000, the town realized that it had more important ways to use some of its employees than have them collect garbage and it announced that it was terminating its garbage collection service and that residents would be obliged either to take their garbage to the landfill site themselves (at approximately \$15 per load) or to hire a private contractor to collect their garbage. Within a few weeks, three different private collection services surfaced. One firm offered garbage tags for an introductory price of only 80¢; another offered its tags for 90¢; and the existing private service promised to donate 5% of its revenues to the local hockey program. Prices for garbage collection services fell as each firm courted new customers. Furthermore, residents no longer had to go to the town hall to buy garbage tags during town hall business hours. The competing

collection services arranged for local convenience stores to be their outlets; they even offered to bring tags to the homes of residents who couldn't get to the store. While this is a small town story, it illustrates the importance of competition in affecting the cost of providing a service and the price charged for it.

Source: Palmer, 2001.

While potential cost reductions seem to be prevalent from increased competition, it is well understood that unions are generally opposed to contracting out (*Dijkgraaf, Gradus, and Melenberg, 2003, at 554; and CUPE, 1985*). In particular, they are concerned about their members losing jobs and the extent to which contracting out would undermine the union, fragment the workforce, side-step provisions of collective agreements, and reduce labor costs with resultant profit taking opportunities for businesses (*Cassidy, 1994*). In addition, the cost savings and increased efficiencies as noted in the empirical studies are not universally accepted because, it has been alleged, they fail to consider some important cost items. In particular, the critics have argued that contracting out results in additional costs due to time and money spent on drafting, negotiating, and monitoring a contract (*David, 1988*); the contractee must train and oversee the contractor's employees to ensure productivity; and additional costs are incurred in laying off employees after their services have been contracted out (*Sauter, Weisman and Percy, 1988*). Further concerns with contracting out have arisen because employees do not identify with the company and they have multiple clients and are not able to give priority to the current client (*Cassidy, 1994*).

Offsetting these concerns and criticisms, however, are a number of advantages of contracting out: greater flexibility for management in allocating human resources; greater productivity and efficiency, particularly if workers are paid on an incentive basis; increased ability to hire specialized expertise when needed; reduced turnover; and greater variety for the employee (*Cassidy, 1994; and Dijkgraaf et al., 2003*).

6.2.2. Franchise

A franchise exists when a private firm provides a service to residents within a specific geographic area and when the supplier is paid (price or

user fee) directly by the users (customers/clients). Franchises may be exclusive (one producer) or non-exclusive (many producers).

If services are provided by exclusive franchises, prices may have to be regulated (regulation is discussed in the public-private partnership section later in this paper). Further regulations may be imposed to guarantee that quality standards or performance measures are met and that all consumers within a specific area (served by the franchise) have access to the service if they pay for it. For exclusive franchises that are largely capital intensive, not tendered on a frequent basis, and not subject to competitive forces (such water and wastewater), adherence to performance standards along with carefully drawn up contracts spelling out the terms and conditions of the agreement is essential. For services that are not capital intensive (refuse collection, for example), frequent tendering for the right to provide the service (similar to contracting out) should assist in maintaining the necessary competitive forces to ensure high quality and low cost services.

For services provided by non-exclusive franchises, price regulation and monitoring activities would likely be less. The attractiveness of this organizational structure is mainly a function of the number of firms involved and hence, the degree of competition created. The larger the number of firms, the greater the competitive environment and hence, the greater the incentive for improved efficiency, lower costs and quality services.

A possible problem with franchise operations is that some users (perhaps low income families) may discontinue consumption of certain services. If users view the price of the service as being too high, they may decide to do without it or find a substitute. This has occurred, primarily in smaller communities, where solid waste collection has been privatised and franchised. Not only could this be unsanitary and impose externalities on those who pay, it could lead to lower quality service and/or greater costs for existing users if economies of scale disappear. Use of a franchise operation in lieu of contracting out, therefore, may not be desirable on efficiency grounds, especially for services where negative externalities might be created because individuals choose not to use the service.

Where franchises are considered, a franchise agreement between the local council and the supplier is critical because it is the core legal document by which both parties are bound and which can be enforced. This agreement should include, among others:

- terms of payment for a franchise fee;
- principles and practice to follow in setting prices;
- all standards and performance measures that are to be met;
- a list and description of all financial and performance reports that are to be provided on a regular basis to local council and the public;
- procedures to follow in renegotiating standards and conditions in the agreement;
- for services where ownership of capital assets are retained by local council, the conditions for their return at the end of the agreement period.

6.2.3. Grants for Specific Services

Grants are often provided by local governments for various community groups or activities including volunteer groups, charitable organizations, recreational and cultural activities, and special boards such as arena boards and library boards. Some of these grants are ad hoc while others are provided annually although applicants for the latter are often required to apply annually. On efficiency grounds, grants are justified if the service delivered through the grant receiving agency is provided less expensively or more efficiently vis-a-vis provision by the municipal government itself. For example, if the grant is to a volunteer organization, it may be less expensive to deliver the service through this type of organization rather than through some body or organization at city hall.

Local government grants, however, are almost never given to improve productive efficiency. They are generally given for one of two reasons; first, to appease specific groups who are persuasive in appealing to the social conscience of local councils to support their respective cause; or second, to provide a particular service through a special board (library board, for example) that is at least one-step removed from direct council responsibility.

6.2.4. *Vouchers*

Vouchers are yet another way of privatizing the provision of public services with their distribution coming directly from municipal governments to citizens deemed to be eligible for a particular service. The user would then submit the voucher to the private provider of his/her choice. The provider, in turn, would forward the voucher to the government for payment (which, in all likelihood would be a constant dollar amount per voucher of the same type).

Determining the cash value of the voucher (that is, the value that the government pays to each firm) is particularly important for it could impact on the production and delivery efficiency of the provider. In providing the service for which the voucher is used, the quantity and quality of the service supplied would have to be stipulated. For example, if the cash value of the voucher were set equal to the average cost of each unit delivered by the firm or if it equalled a weighted average of costs incurred by all firms, the scheme would penalize more efficient producers. To overcome this problem, the per unit cash value should equal the average cost of the most efficient supplier. The advantage of this payment schedule is that a highly efficient firm can lower the costs to governments and in turn, taxpayers.

A system of vouchers can provide incentives for diversity and hence, a large number of producers. This would increase the choice available to local residents. For this reason, the delivery of services such as day-care, homemaker services, foster homes, and group homes could be well suited to a voucher system. They are frequently used for public transportation for welfare recipients and the disabled and sometimes for medical expenses. They have also been used for funding public elementary and secondary education in poor neighbourhoods.

A potential off-shoot of increasing the choice for voucher-holders is the increase in service quality and efficiency that should follow. This outcome, however, would depend on the effectiveness of the information network established among voucher-holders. If the network is effective, the existence of competitive forces should lead to improvements in service quality and lower delivery costs. Reduced delivery costs, however,

may be partially offset by increased monitoring and administration costs to prevent voucher forgery, for example.

Although this approach may encounter some administrative and monitoring problems, experimentation with a voucher system for certain services ought to be encouraged. Initially, vouchers might be tried in those areas where the government is providing assistance to non-governmental agencies, such as social services for low-income families.

6.2.5. *Volunteers*

Volunteers are used by governments in many countries to deliver specific services. One typically notes non-paid help in places such as libraries, hospitals and teachers' aids programs where volunteers are normally assigned to tasks that might not otherwise be undertaken.

Smaller municipalities in Canada and the United States frequently have volunteer fire departments or a mix of volunteer and professional fire fighters. In fact, one study on 104 municipal fire departments in Canadian municipalities in 1981 and 1982 concluded that fire departments employing a mix of full-time and part-time (volunteers) fire fighters in communities up to 50,000 people enjoyed the benefits of lower fire service costs without sacrificing effectiveness. Beyond 50,000 people, effectiveness tended to diminish with a mixed force. As well, the effectiveness of an entirely part-time fire department was reduced because the firemen took longer, on average, getting to fires (*McDavid, 1986*).

Since existing labour is usually not replaced (at least in the first instance), one cannot presume that the use of volunteers will lower delivery costs immediately. Indeed, there may be some administrative costs in maintaining a volunteer staff; for example, training programs, guidance and general co-ordination requirements consume regular staff members' time.

While costs may be lower in the short run, the dependence on volunteers may also lower costs in the long run, especially if volunteers serve as substitutes for paid employees. Further cost savings arise, in both the short and long run, if the use of volunteers permits extra service or longer hours of service – volunteer library assistance, for example. Whether or not this use improves the quality of existing services greatly depends on

the quality of the volunteers and the perception of recipients (the use of volunteers in hospitals, for example, may be perceived to improve the quality of hospital care).

A potential problem in using volunteers arises if they are available only at selected times (weekends and/or evenings, for instance) or if they are not dependable which they may not be since they are not paid to perform various functions. Further problems and costs might be incurred if a system of continuous recruitment is necessary in order to staff the volunteer program.

6.2.6. Self-help

The self-help concept is closely related to the concept of using volunteers. Self-help programs are designed so that individuals or neighbourhoods provide services for themselves. Typical examples in North America include 'Neighbourhood Watch' and 'Block Parent' programs, or flooding and maintaining outdoor ice-skating surfaces in neighbourhood parks. These have grown in popularity over the past few years. In some of the larger municipalities, residents on certain streets or in certain neighbourhoods have collectively organized (and funded) for the purpose of hiring security firms whose purpose is to reduce the incidence of crime and generally improve safety for local residents. Here, the service is provided and paid for directly by the users.

Whether or not self-help groups (for many services) are willing to organize on their own is a debatable issue and, of course, is likely to depend on the severity of the reason for organizing in the first instance. For example, citizens are more likely to organize for protection purposes than for maintaining a neighbourhood park. Unless it can be proven that delivery costs will fall and/or service quantity and quality rise for the beneficiaries (for example, improved security), individuals are unlikely to agree to undertake the activity. In addition, there is the obvious problem of operating a delivery system if 'free-riders' emerge. This problem is likely to be more apparent if large set-up costs are involved in establishing certain services. Given these potential problems, efficiency gains will be maximized only if the majority of residents within a given jurisdiction agree to co-operate.

Conversely, if governments are able to convince established groups or neighbourhoods to convert to self-provision as a substitute for, rather than an addition to, existing public services, then significant savings in the delivery of specific services might be realized. These savings, however, may be offset or partially offset by increased personal costs associated with their delivery.

Further problems and increased costs may arise if self-help groups decide, after a short period of time, to terminate their activity and revert to public provision, possibly through increasing pressure on local politicians to supply the service via the local public sector. Clearly, such indecision could create inefficiencies and higher costs. To avoid this, partial government assistance may be required, not only during the initial establishment stages, but also on an ongoing basis. In fact, this is frequently the practice with maintaining outdoor neighbourhood skating surfaces in municipalities in Canada where the local government often pays a small per diem honorarium to a resident of the neighbourhood to ensure that the ice is maintained for local residents.

6.2.7. Private Non-profit Agencies

A number of services have traditionally been provided by private non-profit agencies in many countries. Common examples in North America include organizations such as Alcoholics Anonymous, Salvation Army, and the United Way. If these organizations provide services that would be provided, otherwise, by local governments, cost savings may be observed. Three potential concerns arise, however, from dependence on the non-profit sector. First, it may be difficult to ensure a high quality service since this may depend on the quality of the people working for the agency. Second, without a reliable and on-going source of funding, these organizations may not be a stable supplier of services. Third, the volunteer nature of many non-profit agencies may lead to unstable provision of the service in the event of an economic downturn that forces volunteers and donors to cut back on the time and funds they donate to charitable activities (*Hall and Reed, 1998*). Fourth, and perhaps more philosophically, there is the important issue of whether or not the public sector is relinquishing some of its public responsibility by relying on non-profit

agencies (with no or very little financial assistance from municipal governments) to provide services such as food banks and shelters.

On the other hand, delivery of services like 'social services' by the non-profit sector may be superior to delivery by municipal governments. Non-profit agencies, unlike local governments, face the possibility of bankruptcy. This should, by itself, increase the incentive to save costs and increase efficiency. As well, when the lack of a profit motive is combined with the difficulty of measuring outcomes for social services because there is no competitive private sector alternative (*Hansmann, 1980, at 843*), it has been suggested that the likelihood of a non-profit agency engaging in opportunistic behaviour is less than it would be in a for-profit firm (Panet and Trebilcock, 1998).

6.2.8. Mix of Delivery Systems

In addition to the large number of purely public and purely private delivery systems, more and more services are being provided by a mix of these organizations. This mix may consist of provision by one government (level of government or department or local business enterprise) for another government or governmental agency or it may consist of the private sector providing part of a service (generally via contracting out) for a government department or agency. This use of mixed delivery systems has increased substantially over the past decade. In some instances, this mix of delivery systems is to take advantage of savings that arise from economies of scale or scope in the provision of a number of services. These economies are attributed to efficiencies that may be gained from servicing a larger population or geographical area. In other instances, however, this mix is used to overcome problems of diseconomies of scale because no municipal government is the most efficient size for providing all public services. As well, this mix may resolve concerns over efficiency problems created by monopolistic service providers through the introduction of more competition into delivery systems.

Examples where one government contracts from an adjacent and generally larger governmental unit occurs in areas such as road maintenance and repairs; operation and maintenance of municipal electric utilities; repair and servicing of public works vehicles; delivery of transit services;

accounting and legal administrative services; solid waste management; and so on. Most governmental construction projects including buildings, roads, water and sewage lines and certain professional services such as engineering design, consultants' studies and legal advice are contracted from the private sector.

6.3. Public-Private Partnerships

Although policy-making and funding decisions around public sector infrastructure must ultimately be the responsibility of the governing council this does not mean that the governing body must own the assets and deliver the services. Asset ownership and service delivery may be handled in a variety of ways including some type of public-private partnership. The major implications of this are discussed here.

Over the past decade or more, there has been a growing interest in delivering public sector infrastructure through public-private partnerships (*Hrab, 2003; and Hrab, 2003b*), particularly for services with substantial capital costs. To illustrate, eighty-five percent of government respondents to a survey by the Canadian Council for Public-Private Partnerships noted that their government was increasing its reliance on public private partnerships (*Martin, 2001*). Similar trends have been noted in other countries (*Szalai, 2001, at 19*). This involvement can take different forms including project initiation or planning, construction, operation, ownership and financing. These public-private partnerships are a form of contracting out and involve the direct participation of one sector in a venture controlled by the other sector. Both partners contribute funds or services in exchange for certain rights or future income.

Public-private partnerships can take many forms such as the following:

- The private sector operates the facility for a fee. The public sector retains responsibility for capital costs.
- The private sector leases or purchases the facility from the public sector, operates the facility, and charges user fees.
- The private sector builds or develops a new facility, or enlarges or renovates an existing facility, and then operates it for a number of years.

- The private sector builds the required infrastructure, operates the facility for some specified period of time, and then transfers it to the government.
- The private sector builds and operates the facility and is responsible for capital financing. The public sector regulates and controls the operation.
- The private sector builds the infrastructure and then transfers ownership to the public sector.

The way in which the two partners share the risks of the undertaking depends on which of these forms the partnership adopts (*Tassonyi, 1997, at 195–196; Martin, 2001*). *Table 6.2* records the types of risks that may arise. The greater is the private sector's share of risk, the greater will be its expected rate of return. Optimal risk allocation requires that risks be allocated to the party that is best able to deal with them at least cost. Ideally, this transfers the risks for design, finance, construction, and operation to the private sector because these risks can be controlled by the private sector. Risks such as those associated with changes in government regulations and legislation including changes in local taxation and environmental standards cannot be controlled by the private sector and should, therefore, not be assumed by the private sector. These should be assumed by the government (*United Kingdom, 1997; Nova Scotia, 1997*). Clearly, an effective and efficient public partnership agreement can only be negotiated if both parties have a clear understanding of the risks that each is to assume. Incorrect risk assignment can lead to increased costs for the private sector and therefore, higher risk premiums than should be the case. Or it can lead to increased number of disputes after the contract is in place and higher costs associated with resolving these disputes (*National Audit Office, 2001*).

The private sector often has concerns that the government could change the 'rules of the game' in midstream because of changes in regulation or in the political climate. To compensate for this, potential private sector participants may increase their bids or even refuse to enter into business agreements with local governments (*Baldwin, 1989*). Further private sector risk arises from the possibility that the public sector may terminate contractual arrangements without having to compensate private

sector participants or the government may simply expropriate the asset (Atwood and Trebilcock, 1996).

Table 6.2

Types of Risk and Potential Solutions

Risk	Description	Potential Solution
Market risk	Future demand is uncertain, but provider plans investment based on the expected growth in demand	Contractual guarantee for providing all relevant information
Financing and economic risk	Interest and inflation rates fluctuate	Some kind of indexing mechanism, but the provider should also be responsible for restructuring and reducing costs
Exchange rate risk	If investment is financed in foreign currency	Adjust prices according to exchange rate fluctuations
Performance risks	Reaching the standards set by law depends on many factors (e.g., on the quality and quantity of inputs)	Defining the circumstances within which the performance can be below standards
'Natural resource' risk	Quality of service depends on natural resources such as raw water	Government may be responsible for the quality of the resources
Operation and maintenance risk	Providers are responsible for operation and maintenance, but if they are forced to transfer the assets back to the government at a low price, they have no incentive to invest	Guarantee for fair valuation process at the end of the period
Technology risk	New technology can appear on the market during the contract period – the provider is responsible for working as efficiently as possible	Price adjustment (incentive regulation) – the requirements of using the best technology are not relevant because of monitoring difficulties

Source: Akos Szalai, 2001, "New Models of Privatizing Public Utilities: Highlights of Reform in Post-Soviet Countries", in *Local Government Brief: The Quarterly Journal of Local Government and Public Service Reform Initiative* (Budapest, Hungary), Table 2, at 22.

Public-private partnerships provide some advantages. First, the private sector offers new sources of capital and hence the possibility of freeing up government revenues for other purposes, reducing current debt and increasing debt capacity (De Luca, 1997). The opportunity to gain new sources of capital is especially important when it is necessary to modernize crumbling or deteriorating infrastructure (Huang, 2001, at 3). The use

of private sector financing for this purpose means that all risks associated with this project fall on the private sector (*Conference Board of Canada, at 14, and 129*). Second, public-private partnerships enable the public sector to draw on private sector expertise and skill in order to minimize costs. This advantage may be especially important to small municipalities, which may have greater difficulty than large ones in attracting expertise. Third, private sector involvement tends to lead to more innovative and efficient operations than if the public sector provides the service on its own (*Probyn, 1997*).

Like most options, public-private partnerships also have disadvantages. First, there may be some uncertainty whether the private sector will be able to carry through its role, especially if there is a risk of private sector bankruptcy in the provision of essential local services. Second, there is a potential loss of control to the private sector. Third, there may be a trade-off of upfront capital costs for future operating costs; for example, the annual cost of private sector financing of a project may turn out to be greater than the cost of public sector financing would have been (*De Luca, 1997*). Finally, private sector financing may include government financial or credit backing, hence continuing to impose a potential burden on the public sector.

Experience with public-private partnerships suggests that, in general, most have produced cost savings (*Slack, 1996; Hrab, 2003, and 2003b; and Mann, 1999, at 25*), efficiency improvements and expanded services with the most notable improvements occurring in the presence of meaningful competition (*Harris, 2003, at 27–28; Hrab, 2003*). Even where competition has not been prevalent and service provision has remained largely monopolistic, the evidence suggests that where the private sector bears the risk, private participation delivers better results than any credible public sector alternative (*Harris, 2003, at 28*). It is also apparent that public-private partnerships are more appropriate for infrastructure that provides services with ‘private goods’ characteristics.

For a governing jurisdiction that may be considering a public-private partnership, the following questions should be asked and answered.

- To what extent is it possible to describe objective standards and performance measures for the service?

- Is competition present – that is, are there two or more contractors able and willing to provide the service?
- Would it be possible to replace the private provider if the firm goes out of business or its performance is below standard?
- Has the asset in question been outsourced elsewhere?
- To what extent will the government be able to monitor the contractors' performance?
- What impact would outsourcing have on current employees?
- How much opposition might there be to privatisation?
- Is private sector involvement in the asset in question legal?
- How much time will it take to structure and implement privatisation (*Bartone, 2001, 219–221*)?

If the answers to these questions suggest that a public-private partnership is appropriate, one further question remains and that is 'what role should the government play'?

6.3.1. What is the Role for Local Government?

Because public-private partnerships for most physical infrastructure projects are monopolistic in nature and because they provide services that were, in the past, or could be provided by the public sector, there is likely to be a role for local government. Local governments need not be involved in the construction of the asset nor should they be involved in the day-to-day management and delivery of services provided by this asset. Instead, the government should, through a carefully drawn up contractual agreement, set the terms and conditions for service delivery, funding, quality of service, and establish performance standards or measures to be met. It could even set out the pricing structure to be used (volumetric pricing for water and sewers; tolls for roads; user fees for solid waste disposal; and so on). In addition, government involvement might consist of setting up a price regulatory system and/or introducing monitoring practices that could include the establishment of performance measures.

a. Price Regulation

Although private sector providers are likely to oppose price regulatory schemes (*Mann, 1999, at 26*), support for price regulation is founded on the premise that it is necessary to protect consumers/taxpayers from inef-

efficient and unfair price increases when decisions over service responsibility and funding are made in an environment in which there is no competition (*KPMG et. al., 2002, part IV*). Setting up a regulatory system is a complex task, however. When should prices be regulated? Who should regulate them? How should they be regulated?

When? Current practice in many countries is inconsistent when it comes to local price regulation. For example, prices are regulated for specific local government services (electricity, for instance) but not for other services in the same countries (water and sewer, public transit). The rationale behind this differential treatment is far from clear. The practice appears to be based on tradition and what is done elsewhere as opposed to any solid economic rationale. Presumably, however, the case for price regulation is strongest in instances where competitive pressures both in terms of decision-making (lack of opportunity for local council to make decisions on the trade-offs for all local goods and services) and production/delivery are weakest such as in non-contestable markets.

Who? Should regulation be the responsibility of the governing council or an independent body set up by the governing council? Of these options, the use of an independent regulatory body operating at arms length from all levels of government with experts appointed jointly by local and senior levels of government and fully versed in financial, budgetary and operational details may best serve local citizens. Certainly, it may minimize the opportunity for public sector interference in the day-to-day activities of the private sector provider.

How? What is the benchmark or criteria that should be used in determining the appropriate price? Should it be based on financial costs or economic costs? Should it be based on a defined standard of service and if so, what is that standard? These are not easy questions to answer.

In general, price regulatory schemes have two common prototypes: rate of return and price cap regulation (*Szalai, at 23*). Where rate of return is used, the regulator defines a fair and reasonable profit level and the company has the opportunity to increase price to the point where its maximum profit level is reached. Because reasonable profit is counted as a percent of the asset base, the company has an incentive to over-invest to increase its asset base and hence, its profit. Further concerns with this

regulatory pricing scheme exist because there is little incentive for the provider to be efficient and vigilant in controlling costs since providers are generally permitted to recover all costs. Monitoring this price is time consuming and expensive because it would require regulators to check the usefulness of all investments so that unnecessary ones could be dropped from the asset base – a formidable task, to say the least.

Price cap regulatory schemes concentrate on creating incentives for the enterprise to increase efficiency (*KPMG et al., 2002, Part V*). This scheme adjusts the regulated price each year by the rate of inflation minus the rate of the expected efficiency gain or productivity. This is the practice followed for electricity transmission and distribution in the State of Victoria in Australia: wholesale prices are not regulated (*Hrab, 2003b, at 48*). Under this scheme, if a company reduces its costs through technological innovation or production efficiencies, it earns extra profit. If it does not, it incurs a deficit. A major difficulty with this scheme is establishing a measure of efficiency. The practice has been to compare relevant performance indicators for a company or utility with similar indicators from companies or utilities in other municipalities or to take the average for all similar enterprises within a country adjusted for geography and other factors that affect cost. The difference between a specific provider and the comparator group may be called the “efficiency deficit” (gap). Where a deficit arises, it is not always expected that it will be corrected immediately. It may take a few years with a condition that a specific percentage of the deficit be removed each year. For example, the water regulator in the United Kingdom requires that less efficient companies close 50 percent of the gap yearly. Again, such regulation, to be effective and efficient, requires a high degree of knowledge and competence on the part of the regulator.

Where the costs are less than expected under price cap regulation, owners of the physical infrastructure will earn unexpectedly high profits. One solution here is to give each customer a refund (at the end of the fiscal year) equal to that customer’s share of the profit (could be referred to as a patronage dividend). Another possibility, although less preferable economically because it would reward those customers who did not

consume the service in the year when the profit was earned, would be to use the profits to reduce prices in the following year.

b. Monitoring

Where public-private partnerships are used, governments may also wish to monitor the activity and performance of private sector providers through the use of performance measures. While relatively new for the public sector or for private providers of services for the public sector, the importance of performance measures is widely recognized and has been for some time (*Hatry, 1999*). A performance measure, if correctly set, records the output, rather than the input, of spending on specific programs or services.

Implementation of a performance measurement system has a number of advantages. It allows providers and consumers to compare performance over time and across similar agencies and municipalities – referred to as benchmarking. It strengthens accountability because consumers/taxpayers are in a better position to evaluate services provided given the cost of producing these services and therefore, in a better position to judge whether service provision is effective and efficient. It enhances transparency because citizens will be able to observe and monitor activities more closely. Performance measures reinforce managerial accountability (*Solano and Brams, 1996, at 164*) and often provide an incentive to stimulate staff creativity and productivity. Finally, performance measures help providers develop budgets based on realistic economic costs and benefits rather than on historical patterns (incrementalism).

Performance measures are also used for determining the effectiveness of service delivery. Effectiveness measures the extent to which an activity contributes to the achievement of the stated goals, objectives, or targets. For example, an activity such as building a road may be very efficient in terms of cost per kilometer, but its effectiveness will depend on the usefulness of the road in providing convenience, safety, and economy for vehicular transportation. When a direct evaluation of the benefits arising from local services is not possible, the demand for services subject to quality standards could be measured through citizen surveys, studies of local economic conditions, reports on the number of applications, re-

quests or complaints received, expert evaluations, and so on, of specific needs. In this way, a measure of the value of the service provided can be estimated. Thus, effectiveness will measure the success of not only doing things, but of doing them to citizens' satisfaction.

Performance measures are now required for a wide range of services in all municipalities and their agencies in the province of Ontario, Canada. More than 100 municipalities across North America now participate in a municipal performance measurement program developed by the International City/County Management Association (*Ontario, 2003, at 6–7*). These municipalities share their performance measurement results with each other annually. Sharing information on performance measures should help to improve the efficiency, accountability, and transparency of the private sector partner as long as the results are reported to users on an annual basis. This reporting could take a variety of forms including mail outs to all users and residents through property tax and/or utility bills; notices in local newspapers; and postings on the municipality's website.

6.4. Summary

Municipal services may be delivered in a variety of ways. Alternatives range from complete public provision to complete private provision or a mix of these including public-private partnerships. For public sector provision, the economic and political arguments in support of independent and autonomous or semi-independent and semi-autonomous special purpose bodies instead of city hall are generally weak. The former do not contribute anything that is unique. Their existence creates or has the potential for creating decision-making problems and unnecessary costs both for local governments and local residents. Eliminating special purpose bodies and transferring their responsibilities to municipal council has the potential to improve the extent to which local public sector efficiency, accountability and transparency could be improved. Certainly, it removes the confusion over who is responsible for what and allows local councils to set priorities and weigh and consider the trade-offs necessary in making decisions on the relative merits of spending on water and sewer systems versus roads versus public transit versus police versus fire versus local parks and so on.

Although private sector provision of municipal services is generally interpreted as 'contracting out' or entering into public-private partnerships, it also includes the use of franchises, grants for specific services or functions, vouchers, volunteers, self-help and private non-profit agencies. Privatization does not mean that governments should forego ownership of municipal services. Indeed, they should retain the right to set standards, specify conditions and generally retain overall responsibility through the use of contractual arrangements. The private sector's role is to deliver services according to the specifications and conditions laid out by government.

There are a number of studies at the municipal level that compare the cost of delivering services in the public sector versus the private sector. In each study, the cost comparison is between local government provision and provision under 'contracting out' to the private sector. In virtually all cases, significant per unit cost savings have been observed for private sector provision. This saving, it is argued, is due to competitive forces present in private sector delivery but generally absent in public sector delivery.

Overwhelming as the empirical evidence may be, it has not silenced the critics. Perhaps the strongest criticism has come from public sector unions who feel particularly vulnerable because of possible job losses and reduced bargaining power. On the other hand, contracting out has the potential for increasing management's flexibility in managing manpower, for increasing productivity especially if incentives are built into payment schemes, for increasing a manager's ability to hire specialized expertise when needed and for lowering the public sector's payroll costs.

Although there has been relatively limited discussion and application of the role of franchises, grants, vouchers, volunteers, self-help programs and private non-profit agencies in delivering public services, these instruments or organizations may become important in the future especially if governments reduce or discontinue some services. Similarly, there is increasing evidence that public private partnerships are growing in importance, especially for services where outputs can be measured, per unit costs can be calculated, and consumers identified.

As for the future of private sector delivery of public services, the debate will continue. There will be advocates for greater privatization as there will be critics. In reality, however, political pressure to reduce government expenditures and reduce or restrict tax and user fee increases will force governments to resort to private sector delivery, in one form or another, for a variety of what are currently referred to as municipal services. In fact, this is even legislated or mandated in some countries.

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List of Abbreviations

Pph. – Paragraph

I. – Item

Art. – Article

Pp. – Pages

P. – Part

AO – Autonomous Okrug

AS – Administrative Staff

SDSK – State Duma of Stavropol Krai

SUE – State Unitary Enterprise

HUS – Housing and Utilities Service

HCC – Housing Construction Cooperative

HEO – Housing Exploitation Office

IET – Institute for the Economy in Transition

MRD – Ministry for Regional Development of the Russian Federation

MF – municipal formation

MUE – municipal unitary enterprise

ZO – Oblast Law

US – urban-type settlement

GO – Government's Order

RF – Russian Federation

PHO – Partnership of house owners

FATS – First-aid and toxicological station

FMD – Fund for municipal development

FCSE – Fund for co-financing of social expenditures

FL – Federal Law

CEC – Central Electoral Commission