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Inspire Policy Making with Territorial Evidence

Transnational Brief

# New thinking on territorial governance - with special focus on the Baltic States



# 1. Current administrative processes in the Baltic countries and major challenges for their implementation



## Estonia

### Administrative Reforms

Since 1993 the administrative system of Estonia comprised: (i) one level of government system (with 15 local-government associations at county level); (ii) State administration at county level through county governments; (iii) sectoral ministries owning regional administrations (usually larger regions than counties). County Governments combined both strategic (task that now goes to inter-municipal bodies) and spatial planning tasks (now going to ministries who send officials to each of the regions).

The main goals of the current local government reform are: (i) to ensure the distribution of state functions is clear and well organised (higher efficiency); (ii) to ensure that services are provided in the same manner and of the same quality in all counties (fewer differences); (iii) to strengthen local governments (new responsibilities at county level).

With the Administrative Reform Act of 2016, the minimum size of a LG (Local Government) has been set to 5000 inhabitants. This guarantees a reasonable capacity for managing basic public services. Most of the municipalities needed to amalgamate with others in order to meet the minimum size criterion for local government.

The Local Government reform does not change the essence of local government and its main tasks. After the reorganization of County Governments (entry in force on January 2018), tasks from County Governments are transferred to LG's, LG regional associations (generally by amalgamating one or more LG Association) and state agencies.

### Local/regional administrative structures and cooperation model

After the LG reform, Estonia is divided into 79 LG's responsible for most of the subsidiarity-based public services (e.g. education, social protection, local roads, planning, leisure activities like sport, culture, libraries etc., water and heating infrastructure etc.).

After the LG reform and since January 2018, Estonia is divided into 79 LG's. County governments are abolished and all their previous tasks are distributed between LGs/inter-municipal cooperation and state agencies/ ministries. The arrangement of functions going to local governments, state subordinated agencies and ministries after the reform are:

- **Functions to local governments/inter-municipal cooperation** – regional public transport, regional development, coordination of regional health promotion, security councils and cultural cooperation, among others.
- **Functions to state subordinated agencies and ministries** – regional spatial planning, management of land reform and state supervision over local governments, schools, welfare agencies and libraries.



## Latvia

### Administrative reforms

The system of local government in Latvia changed in 2009, from the previous over 500 municipalities existent in the whole country into 119 municipalities (9 republican cities and 110 rural municipalities) after the reform of the system local government. At the same time, district municipalities were reorganised and their functions were transferred to newly-formed rural municipalities. Local

government cooperation on regional planning issues is currently implemented in five planning regions.

The administrative reform brought a number of positive effects, such as:

- Concentration of financial and human resources, increasing the capacities of local administrations, empowering them to attract public and private investment resources, increasing the efficiency of budget spending;
- Improvement of local democracy by the increase of territorial scale;
- Areas of local governments that were created around regional development centres have benefited from an increased urban-rural connection.

### Local/regional administrative structures and cooperation model

A single administrative territorial structure has been established in Latvia since 2009, including 119 territories (9 republican cities and 110 municipalities). Local government cooperation on regional planning issues is being implemented in five planning regions but these do not have the status of administrative territories and their administrative centres are not defined.

Latvia has five Planning Region Development Councils, each one composed of the chairmen of the respective municipalities. Other state administration institutions form their own territorial regional structures independently. Currently discussions are underway regarding unified territorial principles and the improvement of national territorial division. In the near future, it is planned to create a second administrative-territorial level around the regional and national development centres with 29 territories for promoting inter-municipal cooperation, voluntary amalgamation of local authorities, decentralisation of functions to local governments and improved organisation of central government functions in the regions.



## Lithuania

### Administrative reforms

The territorial reform in Lithuania (Seimas of the Republic of Lithuania, 2008) abolished the regional administrative level. The “county management reform” of 2009 addressed the counties more specifically, where functions previously performed by the county administrative were transferred to either the municipal or the national level, depending on content and purpose. The most recent, ongoing public governance reform is the Public Governance Improvement Programme (2012–2020), aiming to

improve key public management processes, such as the design, planning and implementation of public policies, taking into account citizens’ needs. Human resources strategy and the design and implementation of public administration reform are two areas of particular importance in terms of shared responsibility between the Office of the Government and other actors in Lithuania.

Assuming a starting point where regions have disparities in terms of competences, geographical specificities, natural situation and cultural environment, the ongoing reform targets the harmonisation of local government, the regions and the central government as well as social and economic partners’ development visions and actions to achieve them. The regional policy white-paper focuses on four main pillars: (i)

### Local/regional administrative structures and cooperation model

Administrative-territorial structure in Lithuania includes 60 municipalities divided into districts and cities or towns. The law on local self-government of Lithuania sets out the principles of local self-government and municipal institutions along with their competences and functions; additionally, it defines the status of a member of a municipal council, as well as economic and financial rules for municipalities.

## Summary of Governance challenges in the Baltic States

### Main challenges in Estonia

One of the challenges is the fragmentation of state administration regionally. Almost every ministry has its own regional administration structure, and there is a low level of cooperation between regional administration bodies. This makes it hard to achieve regionally balanced development. It is, therefore, necessary to improve regional cooperation within ministries and across sectors.

Another potential challenge is the new borders of the municipalities after the administrative reform, which could create interface problems (e.g. due to misalignment with functional logic, when existent functional area is now divided in two different administrative areas).

Joint administrative agencies and joint agencies have not yet been used as a tool for LG cooperation in order to help them to fulfil their public roles or provide services. LG Associations (at both central and county/regional level) need to play a more prominent role not only in representing municipalities but also in regional administration and in improving the joint tasks and common functions of LG’s. Next steps will target the required strengthening of local governments and empowering LG’s associations, in terms of financial autonomy but also to deal with the new tasks from county governments and future tasks yet to be defined during 2018.

## Main challenges in Latvia

Despite the positive effects of the administrative reform, there are still a number of unresolved issues and challenges, particularly for the smallest municipalities:

- Fragmentation of administrative territorial structure;
- Limits to further decentralisation of national government functions due to limited resources and capabilities of the smallest municipalities;
- Insufficient tax revenue, low performance and relatively high administrative costs in smaller local municipalities;
- Fragmentation of central government structures in the regions (lack of unified territorial organisation of central government institutions)

Municipalities in Latvia still remain with very different capacities, administrative costs and financial resources; this also means that they have different opportunities for fund acquisition. In order to address these issues, there is a plan to create a second administrative-territorial level in the near future around the regional and national development centres. This would take the form of 29 local government co-operation territories and promote voluntary amalgamation and decentralisation of functions to the local government level, as well as the improvement of the territorial organisation of central government institutions.

## Main challenges in Lithuania

The main governance challenges of Lithuania that are to some extent shared with other Baltic states are:

- 1) diversity of strategies to many different fields – issue that is intended to be addressed by putting them together in a new master plan reflecting the territorial dimension of all those strategies;
- 2) insufficient cooperation through different levels of administration and between each level – in municipalities, in-between municipalities and with stakeholders;
- 3) Somewhat negative attitude towards the changes, which does not help to move forward.

## 2. ESPON territorial evidence

The above insights from the three Baltic states boil down to challenges relating to both territorial and sectoral fragmentation and the ensuing lack of cooperation at both levels. With two recent Targeted Analyses in the context of governance, institutional innovation and territorial cooperation, ESPON can provide advice by referencing cooperative governance implemented in other parts of Europe, which came about as a result of inelastic administrative arrangements or reforms, which overwhelm a fragmented local governance level. For the purpose of this brief and based on the reflections from the research-policy lab that took place in Vilnius in November 2017, the following four cooperative governance models are taken into account:

- Territorial poles;
- Business regions;
- Intercommunal cooperation beyond the catchment area of growth centres;
- Combined Authorities and Local Enterprise Partnerships.

Case studies from the first three models have been examined by an ESPON Targeted Analysis commissioned by the Swiss Federal Office for Spatial Development in cooperation with the German Federal Ministry of Transport and Digital Infrastructure and the International Spatial Development Commission "Bodensee". All three models fall under an overarching governance category referred to as 'Soft territorial cooperation areas'.



Soft territorial cooperation areas are initiatives that define the sectoral scope and geographical boundaries in an 'open' or 'fuzzy' way. They may operate at the level of functional areas. However, in many cases, the focus is on generating functional integration, rather than on adapting to a 'functional area'. In other words, 'functional areas' are approached as products of policy design and implementation rather than as external variables. The starting point is in most cases a latent 'community of intent'. This notion refers on the one hand to the concept of deliberative democracy, which postulates that political action cannot only rely on formalised procedures organised in territorial 'boxes' but has to consider practical and dynamic aspects. On the other hand, communities of intent follow a neo-institutionalist thinking that considers institutions to be more than jurisdictional issues.

Soft territorial cooperation is about tackling complexity. Sectoral and hierarchic forms of policy-making tend to be inefficient when confronted with the increasingly interconnected nature of the trends and influences at different levels shaping the social, economic and ecological environment of individuals and communities. When seeking to overcome this challenge, traditional spatial planning strategies may be confronted both with the reluctance of sectoral authorities to transfer authority to coordinating bodies, and with the difficulty of managing sectoral interdependencies without putting an unacceptable additional burden on relevant parties. Soft territorial cooperation allows actors to flexibly identify the most relevant issues, partners and methods when confronted with concrete challenges resulting from this complex system of interdependencies.

The sections below outline four governance solutions that can engender joint provision of services of general interest, joint entrepreneurial development, prevention of brain drain and 'growth shadow' as well as an alignment of sectoral competences. As reported during the research-policy lab in Vilnius, all these issues are prominent on the agendas of policy makers, following the administrative reforms. The four sections are designed as a briefing for policy makers providing a set of parameters that defines the governance model in question, and can be helpful for further considerations about possible adoption in the Baltic States. Parameters include strategic reasoning, degree of formalisation, resources, territorial coverage, duration, stakeholder composition as well as areas of intervention.

## Joint provision of services of general interests: French territorial poles

### Strategic rationale

A territorial pole is defined as a union of intermunicipal bodies (*Etablissement public de coopération intercommunale, aka EPCI*), which consider that there are strong connections between their future development perspectives. Its predecessor, so-called pays, were created in 1999 as a way to foster cooperation between established territorial entities. They were dismantled in 2010 in the context of the territorial reform and re-launched under a new legal framework in 2014 known as 'PETR' (Pôle d'équilibre territoriaux et ruraux). The territorial pole promotes economies of scale in the provision of services of general interest and integrates strategic schemes (e.g. on mobility or land use).

### Degree of formalisation

In the PETR legal framework, cooperation is organised as a 'closed union' (*syndicat mixte fermé*). Each intermunicipal body delegates representatives to the pole **Union Council**. Council seats are distributed according to the demographic size of the members. A '**Mayors' Conference**' gathers mayors of every municipality in the pole perimeter at least once a year. It has a consultative character for the joint territorial policies. In addition, the pole operates a **Development Council**, which functions as an interface between citizen's and governance.

## Resources

The average yearly budget of a pole is 460.000 EUR. A small team (4-6 people) is responsible to coordinate and organise activities within each pole. The average team includes a director, an administrative officer as well as four task officers, two of which are responsible for LEADER (in case the pole assumes the role of local coordination of the LEADER 2014-2020 programme). The poles are used as contracting territorial structures for the distribution of regional, national and European funds. In 2015, the French government launched a new financing framework for rural areas. The poles operate as the main channel to distribute public finance to local actors (public and private organisations).

## Territorial coverage

A territorial pole is an agreement between several EPCIs. It draws on existing administrative units, but is not bound by regional affiliation. The perimeter must be "in one piece without an enclave". Territorial poles can amalgamate, and are supported to do so in rural areas so as to pool their financial and technical means.

## Duration

The framework is open-ended and targets long-term goals.

## Areas of intervention

Territorial poles intervene in spatial planning. If the pole perimeter is congruent with the land use scheme perimeter (SCOT – Schéma de Cohérence Territorial), the elaboration of the SCOT can be absorbed by the pole. In operational terms, the pole assumes responsibility for services of general interest, economic development, energy, shared touristic offers and land use.

## Joint entrepreneurial development: Danish business regions

### Strategic rationale

Business regions developed in the wake of a territorial reorganisation, which gave more competences to the local level. Consequently, the municipal level realised the need for cooperation across administrative boundaries. Business regions came along as drivers for economic development. The majority of business regions operate closely with the industry. Some business regions have planning prerogatives for transport policy or land use.

### Degree of formalisation

Business regions are formal cooperation based on agreements among municipal administrations and in some cases regional authorities. They are often institutionalised with an intermunicipal committee and a secretariat. This secretariat may be based on a cooperation model itself or can be commissioned to a member. Typically, a high level of volunteering often characterises the structures in business regions. The partners can choose to become members and to relinquish cooperation on certain matters. The cooperation is based on functional contexts.

## Resources

The Local Government Denmark KL (Kommunernes Landsforening) supports the municipal efforts to engage in business regions. In general, however, the funding of the activities depends on the decision of the business regions. The funding and the number of staff working on the business regions differs considerably.

## **Territorial coverage**

Some collaborative constellations are relatively local and are constituted by a handful of municipal authorities (particularly in southern Denmark), while other business regions cover considerably larger areas such as North Jutland or East Denmark. Greater Copenhagen is a cross-border business region, as cooperation also includes region Skåne and approx. 30 municipalities from southern Sweden.

## **Duration**

The timeframe is open-ended. The first business region was established in 2007. The most recently inaugurated cooperation schemes are from 2016 with the Greater Copenhagen and MidtVest business regions.

## **Stakeholder composition**

The main stakeholders targeted with this framework are municipalities. In addition, in all business regions, there is a loose cooperation with the industry, education and interest groups. The existing cooperative constellations reflect the functional basis of the business regions.

## **Areas of intervention**

The areas of intervention can be diverse: attracting labour, investment, tourists and supporting companies' export opportunities; capitalising on regional business strengths; balancing workforce demand and supply; infrastructure development and the introduction of intermunicipal services.

## **Escaping the 'growth shadow' and brain drain: Halmstad cooperation**

### **Strategic rationale**

The Swedish National Strategy for Regional Development mentions the need for inter-regional development, but does not propose ideas on how to implement it. Over the last decade, Swedish authorities at the NUTS3-level have been going through a progressive transformation of counties (län) into regions. This implies that they have taken over responsibility for territorial development issues. In this context of administrative transformation, it may be difficult to envisage inter-regional cooperation in parallel. Settlements influenced by several regions, may in this context find it difficult to establish a cooperation with relevant partners. The Swedish Agency for Economic and Regional Growth 'Tillväxtverket' has set up a funding scheme targeting these settlements, which seeks to develop new knowledge, invest in development projects and create forums for the exchange of knowledge and experiences between a wide range of stakeholders. Most involved towns can be described as 'inner peripheries', located in between or in the shadow of Sweden's main metropolitan regions: e.g. Halmstad (between Göteborg and Malmö), Trelleborg (south of Malmö), Jönköping (in the middle of the southern Sweden triangle formed by Malmö, Göteborg and Stockholm), Blekinge region (at Sweden's south-eastern edge). The municipality of Halmstad and the six neighbouring municipalities that have agreed to cooperate, position themselves "in the Oslo-Öresund growth axis". They are located between Gothenburg and Malmö. Travel times between the town of Halmstad to the centres of both these metropolitan areas are just over 90 minutes. Halmstad and its neighbouring municipalities are therefore in most respects beyond commuting distance to these areas and need to generate its own growth and job dynamics.

### **Degree of formalisation**

There is no formalisation of cooperation agreements. Preserving municipal autonomy is a particularly important concern in Sweden

## Resources

Financial resources are available from the funding scheme of the Swedish Agency for Economic and Regional Growth 'Towns and cities as regional growth engines'.

## Territorial coverage

The territorial fuzziness of the Halmstad cooperation is at a maximum level, as the willingness to integrate additional territories is an inherent characteristic of the partnership. The Halmstad cooperation network includes territories of three regions: Skåne (Båstad municipality), Kronoberg (Ljungby and Markaryd municipalities) and Halland region.

## Duration

Open-ended cooperation.

## Stakeholder composition

The main involved actors are municipal authorities, the Halmstad University as well as local business representatives.

## Areas of intervention

The municipal partners develop joint activities that integrate brain drain prevention measures, intercommunal promotion and entrepreneurship.

## Aligning sectoral competences: Britain's Combined Authorities and Local Enterprise Partnerships

The cooperative governance presented in this section is based on a case study that was a subject of another ESPON Targeted Analysis dedicated to regional interplay strategies. This analysis was carried out on behalf of the Coventry City Council (UK), the region of Southern Denmark, the Piedmont Region (IT) as well as the Oeiras City Council (PT). To provide advice as to how sectoral competences can be well aligned across territorial cooperation structures, this brief will use the example of the West Midlands Combined Authority (WMCA) and the Coventry and Warwickshire Local Enterprise Partnership (CWLEP).



**Combined Authorities** are an institutional innovation amidst recent decentralisation efforts in the UK. These authorities can be established by the Secretary of State (Central Government), at the voluntary request of two or more Local Authorities. Each Combined Authority has an executive group comprising either one representative of each of the constituent Local Authorities, or one representative of each of the member authorities plus one elected mayor. The rationale for the creation of Combined Authorities is that they will allow councils to collaborate across local authority boundaries, and to take advantage of powers and resources devolved from central government. Combined Authorities can comprise both constituent and non-constituent authorities. The former have ultimate voting rights on actions and can only be signed up to one Combined Authority. Non-constituent authorities can sign up to more than one Combined Authority, but have less voting rights.

**Local Enterprise Partnerships** are voluntary partnerships between local authorities and businesses. They were created with the specific aim of replacing Regional Development Agencies. Local authorities and businesses submit proposals for Local Enterprise Partnerships according to functional economic areas.

## Strategic rationale

The WMCA and CWLEP share the interest in promoting economic growth across local authorities and address the lack of co-ordination between functional policy areas and institutions. The CWLEP has produced a Strategic Economic Plan for Coventry and Warwickshire in 2014, which is now in place in a revised format (2016). The document proposes a number of strategic pillars for the partnership region, revolving around improving employment, focusing on advanced manufacturing and R&D and supporting innovative and knowledge-intensive start-ups and SMEs with growth potential. In 2016, the WMCA has produced an overarching Strategic Economic Plan for the region, which draws on similar Strategic Pillars to the Strategic Economic Plans that have been produced for the Coventry & Warwickshire, Greater Birmingham & Solihull, and Black Country Local Enterprise Partnership Areas. (WMCA, 2016). These strategic plans have no designated mechanism or agency for delivery. Neither the WMCA, the CWLEP nor any of the local authorities can deliver on the plans by themselves making cross-sectoral and territorial cooperation indispensable for achieving the proposed objectives.

## Degree of formalisation

Formal cooperation of constituent and non-constituent authorities with an elected Mayor.

## Territorial coverage and stakeholder composition

The Coventry City Council is one of the constituent authorities of the newly-formed WMCA. Other constituent members are Birmingham City Council, City of Wolverhampton Council, Dudley Metropolitan Borough Council, Sandwell Metropolitan Borough Council, Solihull Metropolitan Borough Council, and Walsall Metropolitan Borough Council. The WMCA also includes a number of non-constituent authorities: Cannock Chase District Council, North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Redditch Borough Council, Rugby Borough Council, Shropshire Council, Stratford-on-Avon Council, Tamworth Borough Council, Telford and Wrekin Council, and Warwickshire County Council. CWLEP covers Coventry City Council (unitary authority) and Warwickshire County Council (an upper tier authority covering the lower tiers of North Warwickshire District Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, Warwick District Council, Stratford District Council, and Hinckley and Bosworth Borough Council).

## Duration

Open-ended cooperation.

## Areas of intervention

Territorial and sectoral policies. An example for the alignment of territorial and sectoral competences is the Coventry Electric Taxis project that sought to install a number of electric vehicle charging points for taxis in the region. The project involved both the WMCA and CWLEP, reconciling strategic sectoral priorities. First, the goal was to improve the air quality by phasing out diesel-powered taxis and substituting them with electric vehicles. Second, the project sought to increase regional employment rates, by helping promote the recently-launched TX-5, a fully electric vehicle produced in Coventry. The R&D and manufacture of the vehicles served the Advanced Manufacturing and Engineering sector of the local economy in both Coventry and the wider West Midlands through the supply chain.

## Conclusions

Despite their voluntary bottom-up nature, the solutions presented in this brief often require considerable 'top-down' stimulation. In many of the analysed cases, they are the result of European or national policy frameworks. The consequences of territorial reforms might occur challenging but the evidence suggests that a number of successful soft territorial cooperation policies have been triggered by a major territorial reshuffle. ESPON scientists suggest the use of mapshots as a starting point of the dialogue. Mapshots make it possible to construct an image of the intercommunal cooperation area in its geographical and territorial governance context. It is based on a dialogue among experts and stakeholders, combining local intelligence, expertise on emerging trends and statistical data. Find out more about this method at [www.espon.eu/actarea](http://www.espon.eu/actarea)



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Make use of ESPON's offer to arrange peer-learning dialogue with your counterparts at local, regional or national level. This will help you to dare the first steps and identify the best parameters and perimeters of soft territorial cooperation



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