

Report
on the Study Visit of Ukrainian Delegation to Estonia
October 1-4, 2014

1. Introduction

In compliance with the Order of the Ministry of Finance of Ukraine No.39-k dated 23.09.2014, the Ukrainian delegation to Tallinn (Estonian Republic) included the following MoF representatives:

Kuzkin Evheny - Director, Department of Local Budgets;

Lozitsky Volodymyr - Director, Department of State Budget;

Gogol Olena - Deputy Head of the Local Budgeting Directorate - Head of the Regional Development Office, Department of Local Budgets;

Kushnir Oleksandr - Deputy Head of the Incomes and Inter-budget Transfers Office, Local Budgeting Directorate, Department of Local Budgets.

The goal of the study visit was to learn about the practices of the Estonian Republic in inter-budget relations, budget transfers, division of function and authority between state and local budgets, reforms of administrative-territorial structure and local self-government.

The visit-related arrangements (travel costs, accommodation and meals) were covered by PEMPAL (PEMPAL Secretariat invitation No.390/2014 dated 28 August 2014 for Ukraine representatives to participate in the study visit to Estonia).

The Ukrainian delegation also included specialists from the Secretariat of the Cabinet of Ministers of Ukraine, the Secretariat of the Ukrainian Parliament's Committee for Budget Issues, directors of Finance Departments of regional state administrations.

On behalf of the hosting party, the meetings were attended by the head of the Local Government Financial Administration Department and the head of the State Budget Department of the Estonian Ministry of Finance, head of the Regional Administration Department of the Estonian Ministry of the Interior, head of the Finance Department of the Tallinn City Government, deputy director for international relations of the Association of Estonian Cities, executive director of the Association of Estonian Towns.

2. Main Body

The study visit mainly focused on the following issues:

▪ **Regulation of the administrative-territorial division of the country by creating a single system of national and local governments, division of authority between local governments in the Estonian Republic.**

On this issue meetings were organized at the Estonian Ministry of the Interior with the head of the Regional Administration Department.

The study visit participants learned about the administrative-territorial division of Estonia, the structure of state and local governments, their authority and relations, as well as about the current reform prospects.

According to the Population Register, Estonian population makes up 1,358.0 million people. The country is divided into 15 counties, where state administration is performed by the county prefect and government agencies. There is no elected municipal government at the county level.

The following come under the scope of county authority:

- balanced and integrated development of the county;
- county planning;
- oversight of planning done by local self-government;
- oversight of enforcement of certain legal acts issued by local self-governments;
- oversight of targeted financing allocated by the state to local self-governments;
- oversight of educational institutions in the county;
- county public transport performance management;
- land reform implementation;
- regulation of emergency and crisis situations.

Self-government in Estonia is carried out in 215 local municipalities and can be of two types: towns/cities - 30 and districts -185, which have the same status and fulfil the same objectives. The authority of local self-governments covers:

- education;
- social assistance and services;
- culture and sports;
- housing and utilities;
- water supply and sanitation;
- youth activities;
- amenities;
- waste disposal;
- territorial planning;
- district or city/town transport and the condition of district and city/town roads.

Quantitative representation of municipality population varies a lot, and local self-governments are not always able to provide relevant services at an adequate level:

Population	Number of Local Self-Governments
up to 2,000	112
2,001-5,000	60
5,001-10,000	24
10,001-20,000	14
20,001-100,000	4
over 100,001	1
Total	215

Consequently, a law was passed in 2004 to promote association of local self-government units stipulating allocation of an additional state subsidy as an incentive for the associated municipality (241 local self-government units carried out their activities in 2002).

The Plan of Activities of the Estonian Government for 2014-2015 stipulates:

- development of the 2015 Local Government Reform Concept defining: division of tasks between the levels of government, ways to change the local government financing system to strengthen inter-municipal cooperation at the regional level;

- continuation and consolidation of support for voluntary association of local self-government units.

- **The budget system and finances of local self-government units.**

A meeting was held at the Estonian Ministry of Finance with the head of the State Budget Department and the head of the Local Government Financial Administration Department.

The meeting participants learned about the main aspects of the budget process: the timeline and the structure of budget documents prepared by the bodies participating in development of draft budgets, budget execution and control, as well as about the new current approaches to budgeting.

The Government of Estonia approves a 4-year Development Strategy, based on which the Parliament passes the annual Budget Law.

Budget is planned on the cash basis, but they are working on passing to accrual budgeting. An attempt to pass to program budgeting in 2008 indicated the need for preliminary work on implementation of accrual budgeting.

The incomes of the State Budget of Estonia for 2014 amount to 7,881 million Euros.

The participants also looked into the structure of local self-government budgets in Estonia and their authority, the system of subventions and subsidies from the State Budget, sources of revenues of local self-government budgets and their distribution by budget levels.

Revenues of local budgets for 2014 amount to 1,501 million Euros. These include:

- individual income tax - 47% of incomes. The taxpayer pays 20% of income, of which 11.6% is contributed at the place of residence, while the rest go to the state budget;
- targeted allocations from the state budget (15%), in particular to pay for the work of teachers and to support the disadvantaged categories of population;
- investment aid at the expense of the European Union funds (10%);
- the entire amount of the land tax (5%). The tax rate is set by the local self-government within the limits established by the law;
- stabilization fund (5%). In order to level the incomes and expenditure of local self-government budgets, incomes for the past 3 years are analyzed and then compared with the forecasted expenditure calculated on the basis of 6 parameters (the number of children, students, adults, elderly, people with special needs, stretch of roads and streets). The Stabilization Fund covers 90% of the excess of expenditure over the incomes; if there is an excess of incomes over the expenditure, the surplus is not expropriated from the budgets of local self-governments;
- incomes from paid services rendered by institutions (payment for kindergarten, meals, visits to museums etc.) - 5%;
- revenues from property sale (1%);
- local taxes (1%), e.g. tax on advertising, on closing down streets and roads, on home pets, on entertainment establishments and events, payment for parking etc. (due to complexity of administration are not that significant).

▪ **Tallinn City Budget.**

A meeting was held at the Tallinn City Hall with the head of Finance Department. The structure of the city budget and the main investment projects were presented to the participants.

The incomes of the city for 2014 have been planned in the amount of 454.7 million Euros, of which:

- individual income tax - 279 million Euros, or 61%;
- targeted allocations from the state budget (payment for the work of teachers, theater staff, children's home, social benefits, keeping of population registers, healthcare programs, investment purposes) - 77 million Euros, or 17%;
- paid services rendered by institutions - 55.4 million Euros, or 12%;
- land tax - 27.9 million Euros, or 6%;
- local taxes - 2%;
- income from sale of land, assets - 1%.

The problematic issues refer to the lack of capacity of municipal authorities to influence increase of revenues due to the following reasons:

- the list and the limits of local tax rates are defined by the law;
- no land reevaluation has been conducted for quite a while, and land tax is paid based on an underestimated price.

As a result, the municipality's debt makes up 52% of its incomes (cannot exceed 60% according the legislation).

▪ **The role of Associations in the activities of local self-governments.**

A meeting was held with the deputy director for international relations of the Association of Estonian Cities and the executive director of the Association of Estonian Towns.

In order to protect their rights and to express common interests, local self-governments have created their Associations:

- two national associations:

Association of Cities/Towns - 47 members, of which 30 cities/towns and 17 districts;

Association of Districts - 117 members (districts);

- 15 county associations (in each district to carry out joint activities, where it is inconvenient and impractical for one local self-government unit to do it on their own, and as a counterbalance to the state county governance).

Out of the existing local self-governments, 51 are not part of any association.

Associations carry out their activities in compliance with the law on association of local self-governments.

A resolution of the Government establishes the order, according to which all the legislative acts on local self-government have to be coordinated with the national associations of local self-governments.

The Associations are constantly working on the issues of transforming local self-government in an efficient regional development tool, trying to find ways to boost incomes of the local budgets, to improve independent problem-solving practices.

3. Conclusions and Recommendations

The study visit to the Estonian Republic was organized at a high level, was interesting and useful, as well as very informative. The meetings held with the state institutions and associations of local self-governments helped systematize the knowledge of the Estonian budget policy and evolution of relations between the state and local governments, determine the areas and prospects of reforms in the above-mentioned fields at the current stage.

The accumulated experience could be applied in the practical activities of the Ministry of Finance of Ukraine, including in the process of implementing the Plan of actions on implementation of the Concept of Local Self-Government and Territorial Authority Division Reform in Ukraine approved by the decision of the Cabinet of Ministers of Ukraine No.591-p dated 18.06.2014, stipulating among others:

- development of conceptual proposals on amendments to the Budget and Tax Codes of Ukraine aimed at decentralization of finances and consolidation of the resource and financial bases of local self-government;
- development of proposals with regard to legislative regulation of the order of settling administrative-territorial issues in Ukraine;
- adoption of a law on voluntary association of territorial communities.