

Local Government Reform in Cyprus: Final Options Report

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National School
of Government
International

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ABBREVIATIONS AND ACRONYMS

AG	Auditor General
CG	Central Government
CoMs	Council of Ministers
DO	District Office
EIA	Environmental Impact Assessment
FRBSL	Fiscal Responsibility and Budget Systems Law
GoC	Government of Cyprus
HRM	Human Resource Management
LM	Line Ministry
LA	Local Authorities
LC	Local Communities
LG	Local Government
MBO	Management by Objectives
MTBF	Medium Term Budget Framework
MoU	Memorandum of Understanding
MANRE	Ministry of Agriculture and Natural Resources
MoEC	Ministry of Education and Culture
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of Interior
Ms	Municipalities
NSGI	National School of Government International
NGO	Non-Governmental Organisation
PS	Permanent Secretary
PFM	Public Financial Management
SBs	School Boards
SOES	State Owned Enterprises
UoLCs	Union of Local Communities
UoMs	Union of Municipalities

Preface

This report was produced upon request of the Cypriot Government by a team of experts from the National School of Government International (NSGI) comprising UK officials from the NSGI, the Department for Communities and Local Government and Lewes District Council.

We would like to express our gratitude to the previous and current Commissioners for Public Sector Reform Ms Emmanuela Lambrianides and Ms Irena Georgiades (the Commissioner) and her office, Mr Socrates Hasicos, Minister of Interior, Mr Andreas Ashiotis (Permanent Secretary, Ministry of Interior) officials from the Public Administration and Personnel Department, Mr Stavros A. Michael (Director of Finance, the Ministry of Finance), central government departments consulted, and representatives from the Municipalities and Local Communities for their contributions to date.

The primary objective of this report is to review the Cypriot Local Government, the way it delivers services to its citizens and the relationship between local and central government, with a view to providing preliminary feasible options for improvement, reorganisation and restructuring.

This is our final report; the options proposed will be subject to further discussion by the Cypriot authorities.

Local Government Reform in Cyprus: Final Options Report

Executive Summary

Background

Cyprus is in recovery from a banking sector crisis. The crisis will have severe implications for economic growth and fiscal sustainability. In April 2013 the Cypriot authorities agreed to the terms of a €10 billion bailout programme with the Troika (the European Commission, International Monetary Fund and the European Central Bank)¹.

As a condition of the bailout, a reform programme has begun, one element of which is structural reform aimed at raising the efficiency and effectiveness of the public sector. The reform of local government outlined in this report is one component of these structural reforms.

Remit and Terms of Reference

The overarching requirement for the work of the National School of Government International (NSGI) is to carry out reviews in Cyprus aimed at “strengthening the efficiency, effectiveness and responsiveness of the public sector”.

Specifically in relation to local government, the requirement is to carry out “a review of the local government sector which will address the issues of the distribution of competences and functions between central and local government and examine the capacity-building and accountability requirements that will be needed to support a re-structured local government system”.

Process and Methodology

Four Missions were carried out in Cyprus between September 2013 and February 2014. These involved a series of structured interviews and facilitated workshops with a wide range of officials from central government, local government and other organisations.

In drafting this report, the review team have taken into consideration trends in local government reform across Europe and in particular the following common principles for reform: transparency, decentralisation, customer focus, behaviour change, and efficiency and effectiveness.

¹See the Memorandum of Economic and Financial Policies

Emerging conclusions and recommendations have been extensively tested throughout.

Findings

The wider case for reform is well made and includes pressures such as rising demand from citizens, demand for more personalised services, pressure on demographics and resources, and the current MoU between the Republic of Cyprus and the Troika.

Specifically in relation to local government, the experts learned that overall capacity is currently very low and in particular:

- there is currently no strategic vision for local government and central-local relations
- a greater focus on the citizen as a customer and value for money is required
- there is a lack of co-ordination and communication between different parts of the central government (“silo approach”)
- central government does too much “doing” and not enough “enabling” (i.e. it is operational and not strategic)
- there is an absence of a culture of performance management and improvement (both at an individual and organisational level)
- there is limited practice in peer-driven improvement at an institutional level.

Recommendations

The relationship between central and local government

Against this background, the experts drew up and agreed in workshops:

- **a vision for local government in Cyprus**

A Vision for Cyprus Local Government*

The main purpose of democratically elected local government is to serve and represent citizens and local communities effectively and accountably.**

To do so it must become the main vehicle of governance and public service delivery at a local level, acting in alignment with national policies and strategies. Local authorities need to be citizen focused, and fit for purpose in terms of leadership, financial viability and overall capacity. They should promote economic growth and deliver efficient and good value services.

* - in the current context

** - in line with the European Charter of Local Self-Government

- a set of **rights and responsibilities for central government**, which focus on the overall strategic and policy role for central government, and the imperative for central government to act in a coherent and joined up fashion in its dealings with local government, coordinated through the Ministry of Interior
- a set of **rights and responsibilities for local government**, which focus on its role in meeting the needs of citizens and delivering services which represent value for money, and in being accountable for doing so
- a set of **rights and responsibilities of the Union of Municipalities and the Union of Local Communities**, which focus on their role in promoting continuous improvement and sharing best practice amongst local authorities
- **key blockers** to meeting the vision and the rights and responsibilities include power games, capacity and financial constraints, and low ambition
- **key enablers** to mitigate the negative effects of the blockers, include drafting appropriate legislation to support the Vision, a step change in the role of the Ministry of Interior and a programme of capacity building.

The experts recommend a **new role for the Ministry of Interior**, leading and co-ordinating with other departments to set an overall strategic framework for local government, including policy frameworks, performance management, and facilitating and supporting capacity building.

Above all, the experts recommend that the Government of Cyprus should use this material as a starting point for **consulting on and agreeing a wholly new approach to central-local relations**, and should then implement the agreed package of reforms.

Decentralisation of local services

The experts considered the current allocation of responsibility for a series of 15 local services. In each case, preliminary proposals were identified to transfer responsibility from central to local government and enhance the delivery role of local government. They recommend that that these **proposals for decentralising services** are implemented, taking account of decisions on restructuring, since the optimum outcome for services depends critically on the capacity of local authorities. Transfers of function will need to be accompanied by transfers of people and financial resources from central to local government. In time, as the capacity of local government grows, it will be possible to decentralise additional services from the 15 services considered in this report.

With regard to the sectoral reviews of the MoEC, the MoF and the MANRE, our report is consistent with the latest versions of the reports we have seen.

Local government finance

It has not been possible to date to estimate the **costs and savings of restructuring options**, due to the lack of available data and because the costs and savings

depend very much on local circumstances for each individual organisation. However, the experts have identified the factors which are material here and have developed a model which allows the **relative cost effectiveness** of different restructuring options to be assessed. The report contains guidance on how the Government of Cyprus can now move to more concrete estimates. In doing so, the focus should be resolutely on value for money for citizens.

All government bodies will need to comply with the more onerous requirements for financial management under the **Umbrella Law**.

Local government structure

It is generally accepted that structure (and finance) should follow function in public service delivery. This is especially so in a citizen-focused system. However, the majority of discussions the experts have had on their emerging conclusions have instead focused exclusively on models for local government structure.

The experts agreed to assess in this report two final options for the structure of local government in Cyprus:

- **Option A** –A new directly elected ‘second tier’ of 5 local authorities, to be known as District Councils (DCs), whose boundaries will match those of existing District Offices. The second tier will take on all services currently exercised by Municipalities and Local Communities and local government services currently exercised by District Offices, together with the 15 specified services which it is agreed will transfer from central government. The second tier will be supported by a ‘first tier’ of directly elected community representatives (e.g. mayors and municipal councillors, community presidents and community councillors), ensuring extensive community engagement and empowerment. This ‘first-tier’ will be clearly led by elected representatives at the District Council level.
- **Option B**– Restructuring of Municipalities and Local Communities to form around 10 single tier authorities of roughly equal size in terms of population. The new authorities will take on the 15 specified functions transferred from central government (Line Ministries and District Offices) and local government functions currently exercised by District Offices.

Under either of these options, there are a variety of models for **community engagement and empowerment**, which help ensure that larger councils are visible in local areas and that citizens have control and influence over decisions. We explore a number of models in the report.

In comparing the two options, we believe that the costs of Option A are lower than Option B; the project management costs will be lower; there are opportunities for economies of scale under either option; both options increase the intrinsic capacity of local government, though Option A offers greater opportunities; and both options represent an improvement in structural complexity over current arrangements.

On this basis, **we recommend the implementation of Option A**, as the best opportunity to provide modern, uniform and efficient service provision across Cyprus. Option B also represents a reasonable way forward.

If the Government of Cyprus elects to pursue an alternative version of Option A, we recommend that it assures itself that the benefits of doing so outweigh the likely costs of departing from the optimum version.

The chosen Option should be tested through a process of **public consultation**.

Next Steps

It is important for these **reforms to be seen as a package**, comprising recommendations around the functions, financing and structure of local government. In addition, it is a package which depends critically on success in implementing both sectoral and cross-cutting reforms (Public Finance Management and Human Resource Management) which are currently underway.

Finally, we have set out our understanding of the **immediate timeline and the actions** needed for the period up to June 2014.

Conclusion

Overall, we have been impressed with the level of shared ambition for Cypriot local government, but feel strongly that:

- current arrangements are not fit-for-purpose to deliver this
- radical change is needed to ensure we capitalise fully on the opportunity for change and meet the challenges on services and efficiency that have been identified.

There is an opportunity, through the work on local government reform, for citizens to benefit from more modern, uniform and efficient service provision, with mechanisms to ensure continued community engagement.

Ultimately, the options for reform chosen by Ministers will balance often conflicting considerations, and be guided by judgements on cost-effectiveness and local circumstances. There are no “right” answers. And implementing the chosen approach will require strong leadership and effective presentation. This report recommends that the chosen approach should focus resolutely on securing strong, citizen-focused, cost-effective local government, based on democratic accountability

and respecting the principles of subsidiary and proximity to citizens. Our aim has been to provide a framework for doing so.

The following is a **list of the report's recommendations**.

List of Recommendations

[Recommendation 1:](#)

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts a vision for local government.

[Recommendation 2:](#)

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts the 'rights and responsibilities of central government'.

[Recommendation 3:](#)

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts the 'rights and responsibilities of local government'.

[Recommendation 4:](#)

The experts recommend that the Union of Municipalities and the Union of Local Communities adopt the roles agreed in the workshop as their main priorities.

[Recommendation 5:](#)

Following adoption of a vision, that the Government of Cyprus revisits its legal framework to ensure this supports the implementation of the vision and rights and responsibilities of central government and local government.

[Recommendation 6:](#)

Most importantly, this work established the key principle that the citizen should be the lens through which the Government of Cyprus should consider all aspects of the local government reform programme.

[Recommendation 7:](#)

- agree the list of services to be assigned to local government

[Recommendation 8:](#)

- consider the proposals and recommendations in the Appendix on each individual service and use these as a basis for delivering a substantial shift in responsibilities towards more decentralised delivery of services

Recommendation 9:

- calculate the number of people working in central government in the roles/responsibilities that will be transferred to local government (both from District Offices and Line Ministries)

Recommendation 10:

- calculate the money spent by central government in exercising the roles/responsibilities that will be transferred to local government (both from District Offices and Line Ministries)

Recommendation 11:

- based on the four points above, agree a 'new burdens' procedure to manage the transfer process and draw up budgets for new local authorities.

Recommendation 12:

We recommend that the role of the Ministry of Interior should:

- set an overall strategy, policies, legal framework, guidelines and standards for local government activities, including its relationship with central government and citizens
- provide high levels of support and transfer of capacity to local government in many areas such as: preparation, implementation and monitoring of multi-year plans, moving from input-oriented budgeting to output-oriented budgeting; managing performance of staff; increasing transparency and accountability both to central government and to citizens; promoting a culture of continuous improvement in service delivery
- monitor the performance of local government in implementing the vision and strategy, to deliver high quality services within budget, through setting appropriate targets and requiring the publications of consistent performance information
- provide effective coordination of Line Ministries in relation to their relationship with local government, to ensure consistency of approach and provision of adequate resources and support to local government to provide services in accordance with each line ministry's strategic plan.

Recommendation 13:

In the short term, that outline budgets are prepared for new local authorities, on the basis of the principle that "finance follows functions"

Recommendation 14:

Estimate the cost of transition from current to new models and the payback period.

[Recommendation 15:](#)

Through the PFM implementation, there should be a complete review of budget structure. The Ministry of Finance, whilst restructuring the budgets for Line Ministries, will need to take into consideration their new roles and responsibilities. In the medium-term a similar review of budget structures will take place for local authorities, which will reflect their new functions and structure. There should be much more emphasis of the costs of providing local services, as opposed to the costs of organisational units. (See Annex 9 for an example budget structure that includes the detailed budget structure of an individual service).

[Recommendation 16:](#)

Option A should be formulated as follows:

A new directly elected 'second tier' of 5 local authorities, to be known as District Councils (DCs), whose boundaries will match those of existing District Offices. The second tier will take on all services currently exercised by Municipalities and Local Communities and local government services currently exercised by District Offices, together with the 15 specified services which it is agreed will transfer from central government. The second tier will be supported by a 'first tier' of directly elected community representatives (e.g. mayors and municipal councillors, community presidents and community councillors), ensuring extensive community engagement and empowerment. This 'first-tier' will be clearly led by elected representatives at the District Council level.

[Recommendation 17:](#)

Option A should be implemented, as described in Recommendation 16, as the best opportunity to provide modern, uniform and efficient service provision. Alternatively, if preferred, Option B would present a reasonable way forward.

If the Government of Cyprus elects to pursue an alternative version of Option A, we recommend that it assures itself that the benefits of doing so outweigh the likely costs of departing from the optimum version.

The chosen Option should be tested through a process of public consultation.

1 Introduction

Report Structure

- 1.1 This report is divided into 11 Sections, each opening with a summary paragraph outlining its content. Throughout the report the experts' 'Conclusions' and 'Recommendations' are highlighted, to guide the reader through the development of the report's position. The recommendations are listed after the Executive Summary.
- 1.2 Sections 1-2 provide background information to the report itself, the Cypriot context and the other reforms (both sectoral and cross-cutting) currently underway in Cyprus.
- 1.3 Section 3 summarises the first 3 Missions undertaken by the experts, and the conclusions agreed upon with stakeholders.
- 1.4 Section 4 details the fourth Mission after the submission of the draft interim report on 22 January 2014. This section outlines the purpose of the visit, the stakeholders met, a summary of the overall reaction to the draft interim report, and a discussion of the approach to restructuring.
- 1.5 Sections 5-8 detail the general findings of the experts, as well as those on the Function, Finance and Structure of local government, which must be viewed as inter-dependant.
- 1.6 Section 9 presents the Conclusions and Next Steps.
- 1.7 Section 10 contains the report Appendix of individual service recommendations of our functional reform proposals.
- 1.8 Section 11 contains the report's Annexes, including the stakeholders/officials consulted.

Terms of Reference

- 1.9 This section sets out the National School of Government International's (NSGI) terms of reference for the report. It details the overarching requirement of NSGI's work, the principles and tasks agreed with the Government of Cyprus, the human resource and finance management issues the study will take into account, and the methodology employed.
- 1.10 The activities of the NSGI in the UK are carried out within the framework of the Memorandum of Understanding between the Governments of the Republic of Cyprus and the United Kingdom. The overarching requirement for NSGI's work is to carry out a series of reviews aimed at "strengthening the efficiency, effectiveness and responsiveness of the public sector".
- 1.11 Specifically in relation to local government, the requirement is to carry out "a review of the local government sector which will address the issues of the distribution of competences and functions between central and local government

and examine the capacity-building and accountability requirements that will be needed to support a re-structured local government system”.

Principles

1.12 The review required by the Terms of Reference was guided by principles agreed at the outset with the Government of Cyprus, namely:

- increased devolution of responsibilities from central to local government²
- greater proximity to citizens of decision making and service delivery
- improved scope to adapt to local circumstances
- enhanced local political and financial accountability
- requirements for the sustainability of services, structures and affordability.

Tasks

1.13 The tasks outlined below were identified to guide the implementation of the Terms of Reference. The experts were encouraged to use their professional judgement to carry out alternative and/or additional tasks that would provide a holistic understanding of local government, the way it delivers services to citizens, and the relationship between local and central government, with a view to providing feasible options for improvement, reorganisation and restructuring.

1.14 The main tasks outlined in the Terms of Reference are to:

- assess the capacity of local authorities to assume additional powers and responsibilities
- submit scenarios for the allocation of additional resources to local government in order to carry out new functions
- elaborate on the conditions (possibly total population size to be served), and assess the viability, of possible new structures based on local authority cooperation, possibly regarding:
 - Community Infrastructure Planning (sports, cultural infrastructure)
 - Planning and Building Permits
 - Traffic Management (traffic wardens)
 - Transportation Planning
 - School Buildings Management (school boards)
 - Parks
- assess the effectiveness and replicability of existing models based on single functions, which are responsible for integrated waste management, water and sewage boards
- assess the impact of local government reorganisation on central government roles and structures.

²In line with the European Charter for Local Self-Government.

1.15 The study will also consider issues emerging from Public Financial Management reform and Human Resource Management reform in co-ordination with cross-cutting experts.

1.16 As expected, the focus of efforts evolved as work progressed. The experts have kept the terms of reference closely under review and are satisfied that this report meets the principal objectives, within the limitations of available time and data. Minor points of departure are signalled at key points in the report.

Methodological Approach

1.17 From the outset it was recognised that the reform of local government could not be seen in isolation. Any proposed option for local government reform has to be considered within the context of proposed cross-cutting and sector-specific reforms and their expectations regarding the capacity and capability of local government to undertake increased responsibilities.

1.18 Hence, in terms of a methodological approach it was agreed that:

- local government reform should be aligned with the Government of Cyprus' ongoing Public Financial Management (PFM) and Human Resource Management (HRM) reforms
- where applicable, the experts would assess and recommend adjustments in participating Ministries' organisational structures and performance management systems, and in the allocation and application of human and financial resources, in order to align sector goals and improve service delivery outcomes
- the overall approach would be to conduct a problem-driven review, providing targeted and feasible solutions.

1.19 During the first mission, it became very apparent that any issues related to local government function and structure are extremely emotive; there is little consensus between and among different levels of government; and political positions seem to play a large role in stakeholders' positions. In particular we noted high divergence of opinions regarding the:

- division of responsibility and accountability between central and local government in delivering services
- capacity and capability of different levels of government to deliver services
- sustainability, affordability and effectiveness of current functions, structure and practices.

1.20 As a result, the experts, in consultation with the Government of Cyprus, decided to supplement a programme of structured interviews and analysis of documentation and data, with a series of facilitated workshops with key stakeholders (representing central and local government and other organisations). These workshops aimed to build consensus on the purpose of local government, the rights and responsibilities of central and local government, and any additional broad principles that would guide the identification of options for reform.

when referring to 'Local Communities', we are referring to these 350). As most of Cyprus is rural land, Local Communities govern 85% of the island's total land area.

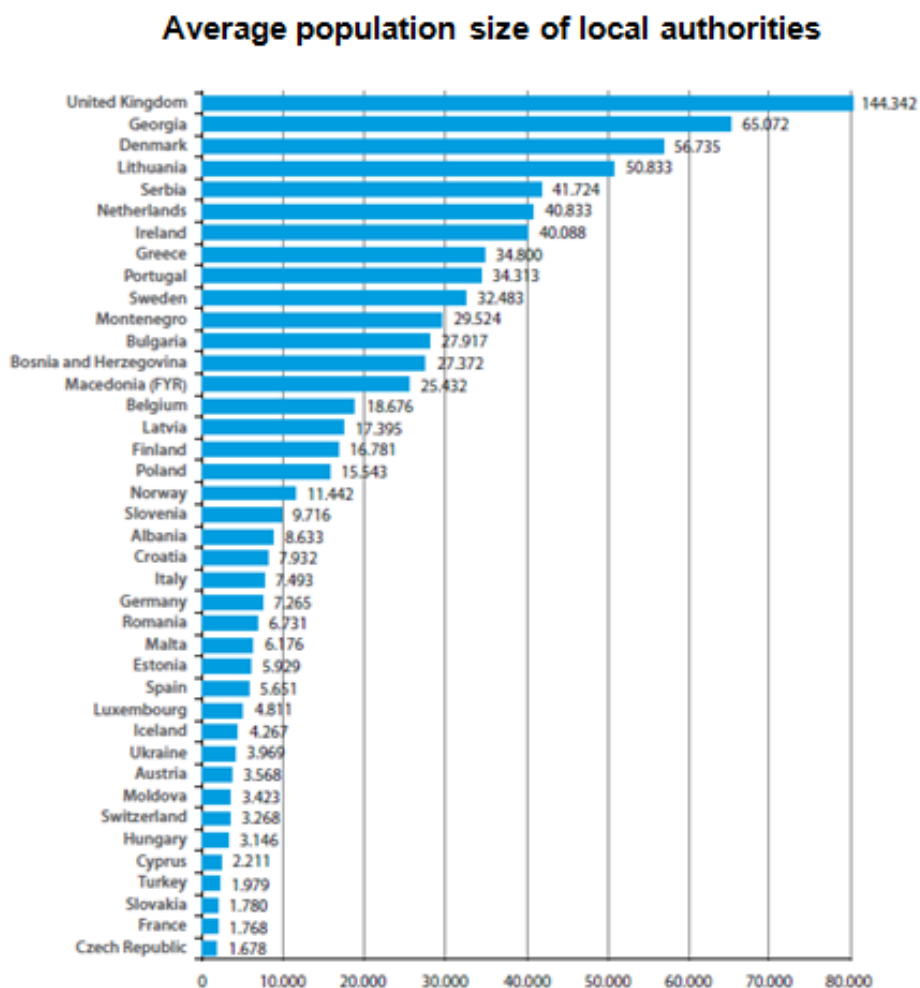


Figure 2CEMR Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis, 2013

2.5 Figure 2 (above) shows the average 'Municipality' size across Europe. By European standards, the average population size of Cypriot local authorities is low, the fifth smallest in Europe at 2,211.⁵

2.6 The CEMR report, from which this graph is taken, uses the term 'Municipalities' as a generic term for all local authorities. The graph therefore shows the average population across all local authorities in Cyprus, including both Municipalities and Local Communities.

⁵CEMR *Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis*, 2013, Council of European Municipalities and Regions (CEMR) (p. 13).

- 2.7** Using data from the 2011 Cyprus Census, the average population of a Municipality is 19,950, and the average Local Community population is 645. The average local authority size is 2,075.⁶
- 2.8** In Cyprus, Local Communities are generally responsible for waste disposal, water supply and public health. Municipalities are, in addition, responsible for social services, the issuing of building permits, and some larger Municipalities are responsible for the provision of planning permission.
- 2.9** Therefore there are substantial differences between Municipalities and Local Communities in terms of power exercised, their role in the government structure and the financial and administrative resources available to them. “These differentiations create corresponding imbalances in the standard of living and the quality of services citizens enjoy.”⁷
- 2.10** As outlined in the EKDDA study, the “small number of powers and functions of local government runs counter to the precepts of modern democratic models of government, and the instructions of the EU on the implementation of the principle of subsidiarity and proximity to the citizen (article 4 of the Lisbon Treaty)”⁸.
- 2.11** The Ministry of Interior oversees local government and formulates and implements central government policy. For administrative purposes, Cyprus is divided into 6 districts, of which Paphos, Lemesos, Famagusta, Nicosia, Larnaka fall within the framework of this study. Many functions which are carried out by Municipalities in urban areas are currently executed by District Offices in rural areas. Local Communities do not normally have powers to undertake the same functions as Municipalities, and therefore a large proportion of services in rural areas are carried out by District Offices, on behalf of Local Communities.
- 2.12** A District Office is the competent state body that ensures the implementation of government policy in a District. They are responsible for the submission of proposals, in collaboration with other relevant agencies and the formulation of appropriate and successful government policy for the socio-economic development of the District. The District Offices deal with a large number of services related to the daily life of citizens:
- Registry (Application for First Passport, Registration on the electoral roll etc),
 - Housing Projects/Policy (Government land to poor families etc),
 - Technical Services (Building permits, certificates of approval, Budget Execution, execution of Development Projects, projects co-financed by the European Union etc),

⁶The 2011 Population Census, The Statistical Service of Cyprus (see http://www.cystat.gov.cy/mof/cystat/statistics.nsf/populationcondition_22main_gr/populationcondition_22main_gr?OpenForm&sub=2&sel=2, accessed on 24/03/2014.)

⁷EKDDA, *Study for the Restructuring of the Local Government in the republic of Cyprus, Executive Summary*, 2009, The National Centre of Public Administration and Local Government (EKDDA), p. 12.

⁸ Ibid p. 16.

- Water Development Policy in rural areas,
- General Permits Issuing (issuing / renewal of license to sell alcoholic beverages, alcohol reseller approval, license for the use of loudspeakers, license for operating leisure centres, license for selling manufactured tobacco etc),
- Hunting Licenses,
- License of Petroleum Gas Storage and for Operating Petrol stations,
- Permits for carrying out fundraisings,
- Clubs registration and operating license renewal,
- Management of Turkish-Cypriot Property,
- Foreigners Issues (acquisition of real estate by foreigners, acquisition of Cypriot Citizenship),
- Certificates of Permanent Residence.

2.13 The District Offices are part of the Ministry of Interior, but somewhat separate from the main structure (see Mol organogram and the organogram of Nicosia District Office in Annexes 5 and 6). Currently each District Office employs an average of 140 officials excluding hourly staff.

2.14 The functions of District Offices in rural areas have been heavily criticised on the basis that District Offices are “called upon to cover all the weaknesses and all the gaps left by the segmentation of local government, without having a single political elected organ of participation of the local government at the level of the district”.⁹

Central Government Funding

2.15 Central government funding is delivered through grants proposed by the Council of Ministers and approved by the House of Representatives.

2.16 Municipalities then have 1/3 of the overall grant divided equally among 30 Municipalities. This grant is allocated from the Ministry of Interior (Mol) directly to the Municipalities. The remaining 2/3 of the overall grant is distributed based on the number of voters, and then each Municipality decides how to allocate its approved budget.

2.17 With regard to District Offices, grants are also proposed by the Council. They are then negotiated with the Ministry of Finance and do not require further approval.

Current Financing of Local Government

⁹ Ibid, p. 16.

2.18 It is worth noting that the expenditure of sub-national and local public sector government as % of GDP in Cyprus is the second lowest of EU countries, with only Malta spending less. Low sub-national expenditure as % of GDP is principally attributed to 'limited competencies because of a country's small size' or 'because historically a country has been or is highly centralised'. There are many variables amongst EU countries and largely differences due to 'a country's geography, territorial organisation, level of decentralisation and competencies carried out by local authorities'¹⁰ (see Figure 3below).

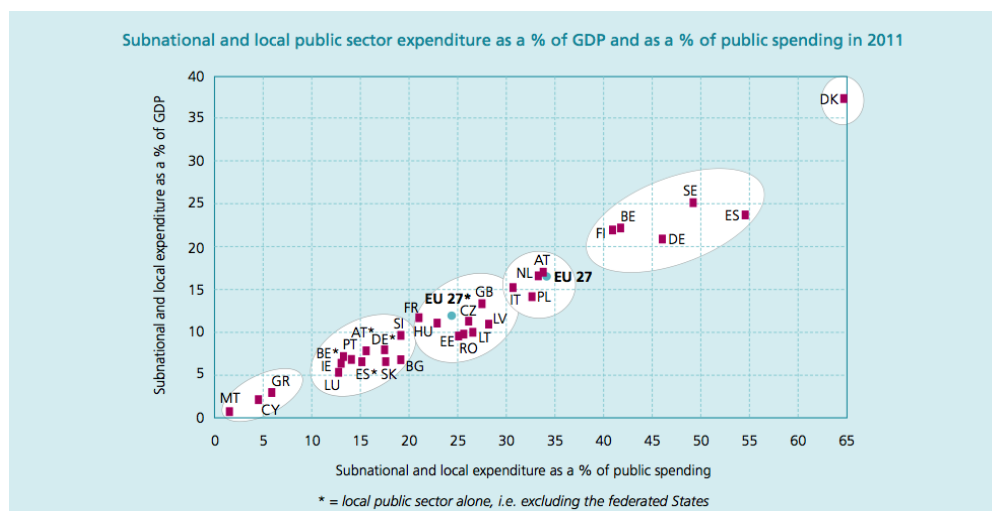


Figure 3CEMR Sub national public finance in the European Union, 2011, Dexia

2.19 The Eurostat information document 'Government expenditure by sub-sector of general government 2011' suggests that the local government sub-sector in Cyprus is ranked amongst the very lowest in the EU for its share of general government total expenditure, with the majority of overall expenditure in Cyprus classed as central government expenditure¹¹.

2.20 The following data on local government financing gives further detail of the current structure, specifically in the provision of services. Due to the lack of information made available to NSGI (and comparatively small sized budgets) of Local Communities, we present data on Municipalities only (For additional financial information describing District Offices Expenditure and Municipalities Expenditure and Sources of Income, see Annex 2).

Group 1 Municipalities	Population (Census 2011)	Municipality Expenditure 2012	Municipality Spend Per Head 2012
Limassol	101,000	€ 39,002,454	€ 386

¹⁰CEMR *Sub national public finance in the European Union, 2011, Dexia, p. 24*

¹¹European Union *Government expenditure by sub-sector of general government 2011 data, Eurostat statistics in focus 52/2012*

Strovolos	67,904	€ 18,534,166	€ 273
Nicosia	55,014	€ 30,915,883	€ 562
Larnaka	51,468	€ 23,317,184	€ 453
Paphos	32,892	€ 20,281,339	€ 617
Group 2 Municipalities	Population (Census 2011)	Municipality Expenditure 2012	Municipality Spend Per Head 2012
Lakatamia	38,345	€ 11,679,162	€ 305
Kato Polemidia	22,369	€ 5,724,224	€ 256
Aglantzia	20,783	€ 8,470,237	€ 408
Aradipou	19,228	€ 9,037,899	€ 470
Egkomi	18,010	€ 7,110,748	€ 395
Latsia	16,774	€ 6,546,002	€ 390
Paralimni	14,963	€ 15,273,486	€ 1,021
Mesa Yitonia	14,447	€ 5,786,463	€ 401
Ayios Athanasios	14,347	€ 4,663,963	€ 325
Yermasoyia	13,421	€ 6,839,811	€ 510
Ayios Dometios	12,456	€ 4,779,330	€ 384
Ypsonas	11,117	€ 3,324,857	€ 299
Idalion	10,466	€ 4,216,759	€ 403
Yeri	8,235	€ 1,376,192	€ 167
Yeroskipou	7,878	€ 5,103,904	€ 648
Livadia	7,206	€ 2,665,844	€ 370
Tseri	7,035	€ 2,101,420	€ 299
Dromolaxia-Meneou	6,689	€ 2,626,758	€ 393
Derynia	5,844	€ 3,099,480	€ 530
Sotira	5,474	€ 2,156,751	€ 394
Athienou	5,017	€ 2,583,691	€ 515
Peyia	3,953	€ 5,082,765	€ 1,286
Ayia Napa	3,212	€ 11,039,516	€ 3,437
Polis Chrysochous	2,018	€ 2,991,908	€ 1,483
Lefkara	890	€ 1,205,022	€ 1,354

Figure 4 Municipalities Population, Expenditure and Spend Per Head (Pension liabilities not included)

2.21 We include more detailed information about Municipalities in Annex 2, as well as some data on District Offices¹².

Funding Since the Crisis

¹² The data received on the Friday 28th March, one working day prior to submission of this report, has not been included. However, use of this data is discussed in Section 9.

2.22 Since the financial crisis, funding to local government has been reduced year on year, as demonstrated in the following Figure 5-

Year	Annual State Grant Municipalities (€)	Compensation (Professional Tax) (€)	Transport (Moving Goods, Transit Tolls) (€)
2009	72,170,399	29,166,265	2,562,902
2010	72,354,370	29,165,183	2,562,902
2011	68,795,153	27,701,330	2,562,902
2012	60,976,514	20,528,538	2,562,902
2013	58,082,868	19,912,681	2,486,000
Data Source: Cyprus Union of Municipalities			

Figure 5 Annual State Grant and Compensations 2009-2013

Municipalities Deficits

2.23 Of the Group 1 Municipalities, Strovolos is the only Municipality operating with a surplus; all other Municipalities have a deficit. In Group 2, 13 out of 25 are also operating with a surplus.

Group 1 Municipalities	Income 2012	Expenditure 2012	Pension Liabilities 2012	Surplus / Deficit
Limassol	€ 40,661,645	€ 39,002,454	-€ 13,072,805	-11,413,614
Strovolos	€ 19,129,785	€ 18,534,166	€ 0	595,619
Nicosia	€ 29,837,909	€ 30,915,883	-€ 5,774,000	-6,851,974
Larnaka	€ 20,036,999	€ 23,317,184	-€ 6,152,200	-9,432,385
Paphos	€ 19,618,870	€ 20,281,339	€ 0	-662,469
Group 2 Municipalities	Income 2012	Expenditure 2012	Pension Liabilities 2012	Surplus / Deficit
Lakatamia	€ 9,878,991	€ 11,679,162	€ 0	-1,800,171

Kato Polemidia	€ 5,072,760	€ 5,724,224	€ 0	-651,464
Aglantzia	€ 6,634,622	€ 8,470,237	€ 0	-1,835,615
Aradipou	€ 7,875,431	€ 9,037,899	€ 0	-1,162,468
Egkomi	€ 5,939,737	€ 7,110,748	€ 0	-1,171,011
Latsia	€ 6,055,563	€ 6,546,002	€ 0	-490,439
Paralimni	€ 15,387,671	€ 15,273,486	€ 0	114,185
Mesa Yitonia	€ 4,496,423	€ 5,786,463	€ 0	-1,290,040
AyiosAthanasios	€ 4,558,677	€ 4,663,963	€ 0	-105,286
Yermasoyia	€ 7,544,213	€ 6,839,811	€ 0	704,402
AyiosDometios	€ 4,308,667	€ 4,779,330	€ 0	-470,663
Ypsonas	€ 3,557,815	€ 3,324,857	€ 0	232,958
Idalion	€ 4,516,847	€ 4,216,759	€ 0	300,088
Yeri	€ 2,302,917	€ 1,376,192	€ 0	926,725
Yeroskipou	€ 5,478,517	€ 5,103,904	€ 0	374,613
Livadia	€ 3,154,543	€ 2,665,844	€ 0	488,699
Tseri	€ 2,297,291	€ 2,101,420	-€ 174,117	21,754
Dromolaxia-Meneou	€ 3,003,545	€ 2,626,758	€ 0	376,787
Derynia	€ 2,897,008	€ 3,099,480	€ 0	-202,472
Sotira	€ 2,534,741	€ 2,156,751	€ 0	377,990
Athienou	€ 2,385,390	€ 2,583,691	€ 0	-198,301
Peyia	€ 5,548,806	€ 5,082,765	€ 0	466,041
Ayia Napa	€ 11,053,655	€ 11,039,516	€ 0	14,139
PolisChrysochous	€ 3,366,607	€ 2,991,908	€ 0	374,699
Lefkara	€ 1,164,750	€ 1,205,022	€ 0	-40,272

Figure 6 Municipalities Income, Expenditure, Pension Liabilities and Surplus/Deficit

Financial Reporting

2.24 Municipalities are required to comply with the Municipalities law for their budget preparation and reporting. Local Communities, as the smallest local authorities, are requested to produce minimum financial information. The present system requires the following data from the Local Communities on a monthly basis within 10 days from the end of the month:

- (a) the actual cash receipts and payments
- (b) the accounting balances of their bank accounts
- (c) the outstanding loans
- (d) any liabilities outstanding for more than 90 days
- (e) the annual budget (at the start of the year only).

2.25 Despite the relative light financial reporting requirements, both Municipalities and Local Communities experience substantial challenges in meeting their financial reporting requirements as expressed in the latest report by the Auditor General.

2.26 In the Auditor General's most recent evaluation of local government, she concludes that:

“Local authorities in European countries have a wider range of competencies compared to those in Cyprus, covering areas such as social policy, education, health, public transport and even business enterprising”.

2.27 The Auditor General's report emphasises the key issues for Municipalities in meeting financial standards and requirements such as:

- lack of an internal control system
- serious financial problems in meeting current liabilities
- weak organisational structure
- non-compliance with accounting standards
- omission in the books and records
- mismanagement of public funds.

2.28 With regard to Local Communities, many of the above are also applicable. Furthermore, additional issues are summarised as:

- the large number and small size of Communities with little capacity to comply with financial requirements and reporting (around 100 have a population of less than 100 inhabitants, and around 200 have a population of less than 300 inhabitants)
- they largely depend on state subsidies and grants with government guarantees to carry out their growth projects, rather than being financially viable

- weak management skills of many Community Board members and lack of a uniform, integrated accounting system. The latter in particular leads to unnecessary costs.

2.29 She recommends these could be addressed through measures such as:

- introduction of targets and performance indicators
- a significant reduction in the number of Municipalities
- the elimination/reduction in deficits arising from the operation of different services.

2.30 The difficulties in local government financing described above will be exacerbated by the implementation of the 'Umbrella Law' (as part of the Public Finance Management Reform (see Section 3 for details)), which was passed in February 2014.

2.31 The Accountant General's Office has expressed particular concerns with the consequences the 'Umbrella Law' will have on financial reporting, specifically the application of Article 94 as regards small authorities that may not have the capacity to provide this data on time, and to the standards required, such as:

- Any commitments falling within the definition provided in the FRBSL (Umbrella Law); and
- As of next year they will also need to prepare quarterly budget forecasts.

2.32 Local authorities that do not meet the Umbrella Law requirements will not be eligible for central government funding. The Umbrella Law thus represents a major challenge to the viability of low capacity local authorities. This will be explored in more detail in Section 3 under 'Cross-cutting Reforms'.

2.33 To add to the complexity of local government finance, it was noted that:

- Financial information for local government is not available on a standardised basis. Local authorities do not have financial information at a service level; budgets are set and managed on the basis of organisational structure rather than outputs.
- This makes it difficult to compare effectiveness, efficiency and value for money of services delivered between different local authorities, whether Municipalities or Local Communities.

Pressure for Reform

2.34 The current pressure for local government reform stems from a much wider context, as is evident in trends in public sector reform internationally. These trends can be summarised as:

- rising demand from citizens. Citizens increasingly expect services to match the best in the private sector, in terms of quality, timeliness and value for money
- demand for more personalised services. Citizens increasingly expect services to be designed and delivered in ways which offer choice, and that service levels are tailored to their personal circumstances
- pressure on demographics and resources. The demands for services facing public sector bodies are not static but driven strongly by demographic changes, notably in the numbers of children and the elderly
- the current MoU between the Republic of Cyprus and Troika. The MoU requires acceleration in the pace of public sector reform, leading to better quality and lower cost services.

Current Trends – Principles

2.35 These pressures for reform have led public sector organisations internationally to pursue common principles for reform. These can be stated in different ways but the most common elements are set out in the five principles below:

Transparency

2.36 Public agencies are making available more information about their services and performance, to aid service delivery and enhance accountability. This is driving activity on measurement of performance, target setting, monitoring and publication of information. In a local government context, this means each local authority publishing information on how it raises its money and how it spends its money; the outcomes it aims to achieve; and its performance in delivering these outcomes. This often takes the form of targets and indicators. Information should be published in a way that allows comparison between different local authorities. Increasing numbers of local authorities are publishing full information on all their items of expenditure above a low threshold.

Decentralisation

2.37 Key decisions on the design and delivery of services are increasingly taken at local level, where specific local circumstances can more easily be reflected in a more responsive manner. This drives empowerment of front line professionals. In a local government context, this requires central government to set national strategic frameworks for service delivery and constrain its direct involvement in the task of delivering services. This central government role should be limited to major national services or those requiring significant specialist expertise, which cannot reasonably be designed and delivered at local level.

Customer focus

2.38 Services are designed from the perspective of the customer. This is driving public services which are "joined-up" across boundaries, offering a single point of access for citizens. In a local government context, this requires the design and delivery of services around the needs and expectations of citizens and not those of the local authority. It requires local authorities to work in partnership with each other and with other bodies, sharing staff and resources.

Behaviour change

2.39 Strategic interventions are shifting way from regulation and expenditure-based options towards the use of incentives and persuasion. This is driving improved communications with citizens and a shift away from government responsibility towards personal responsibility. In a local government context, this requires local authorities to be clear about their priorities and planned outcomes, and to communicate clearly to citizens the services they can expect and the citizen role in providing these.

Efficiency and Effectiveness

2.40 All public agencies are required to demonstrate year-on-year improvements in their efficiency and effectiveness. This is driving mergers and consolidation to deliver economies of scale and sufficient capacity. It is also driving a shift away from public provision towards provision by the private and voluntary and community sectors. In a local government context, this leads to plans for restructuring and increased commissioning of services from the private and voluntary and community sectors, based on agreed costs and service standards.

2.41 We have used these international principles and trends to inform our assessment of the current state of local government in Cyprus and as a basis for thinking about proposals for reform of the role, function, structure and financing of local government.

European Trends

2.42 The onset of the financial crisis has been a stimulus for countries to look towards 'territorial organisation' and 'reforms' as a means of achieving efficiencies and economies of scale. Consolidation of 'sub-national governments' is a growing trend in EU countries where opportunities are being taken to 'rationalise' and 'pool resources' to meet the challenge of austerity cuts.¹³ The reforms taking place across Europe have led to a significant reduction in the number of local authorities. Examples can be seen in Figure7 below.

Country	No. Municipalities prior to reform	No. Municipalities after reform	Reduction Amount
Denmark	271	98	-173
Latvia	534	119	-425
Greece	1034	325	-709
Luxembourg	116	106	-10
Finland	431	336	-95

Figure 7 Number of Municipalities¹⁴ prior and post reform. Adapted from CEMR Sub national public finance in the European Union, 2011, Dexia

2.43 Current Trends - Approaches

¹³CEMR *Sub national public finance in the European Union, 2012, Dexia, p. 6*

¹⁴ Read: 'Local Authorities'

The 2009 EKDDA report concisely describes current approaches to local government reform in Europe. For a discussion of the scenarios below, see Section 11 of this report.

Structural changes to local government typically involve one of three scenarios:

(1) territorial reform, (2) inter-municipal co-operation or (3) joint ventures/contracts.

1. Territorial reform involves the merging of municipalities and communities. This has been undertaken by Germany, Sweden, the UK, and more recently Denmark and Greece. This reform is typically motivated by increased economies of scale in provision of services, and strengthening the role of local government in development planning. Typically the operational scope of activity of local government is also broadened. The coordination of activities between the new and expanded Municipalities calls for strong staff structures and the adoption of suitable practices e.g. evaluation by qualitative and quantitative targets set through a participatory process.

2. Inter-municipal co-operation through the merging of services. These are widely found across in Europe in a multitude of forms. This is particularly well developed in France, where there are many small communities. Often this is accompanied by direct state intervention and loss of direct accountability to local societies.

3. Joint ventures/contracts

This can involve privatisation, cooperation, joint ventures between Municipality and individuals and programme or other contracts. These are normally related to an inadequacy of basic resources or knowledge or limited geographic boundaries of activities, with the aim of achieving economies of scale in service provision. These reforms bring important economic benefits, but also involve a loss of democratic control and accountability.¹⁵

Figure 8 Approaches to Reform¹⁶

2.44 The consolidation of sub national governments has also been a catalyst for seeking the optimum size of local authorities. "In 2011, the average European Municipality¹⁷ totalled 5,630 inhabitants across a surface area of 49km²¹⁸ (See Figure 9).

¹⁵See Section 11 for the advantages and disadvantages of the reform approaches.

¹⁶EKDDA, *Study for the Restructuring of the Local Government in the republic of Cyprus, Executive Summary*, 2009, The National Centre of Public Administration and Local Government (EKDDA), p. 10.

¹⁷Read: 'local authority'.

¹⁸CEMR Sub national public finance in the European Union, 2011, Dexia, p. 6.

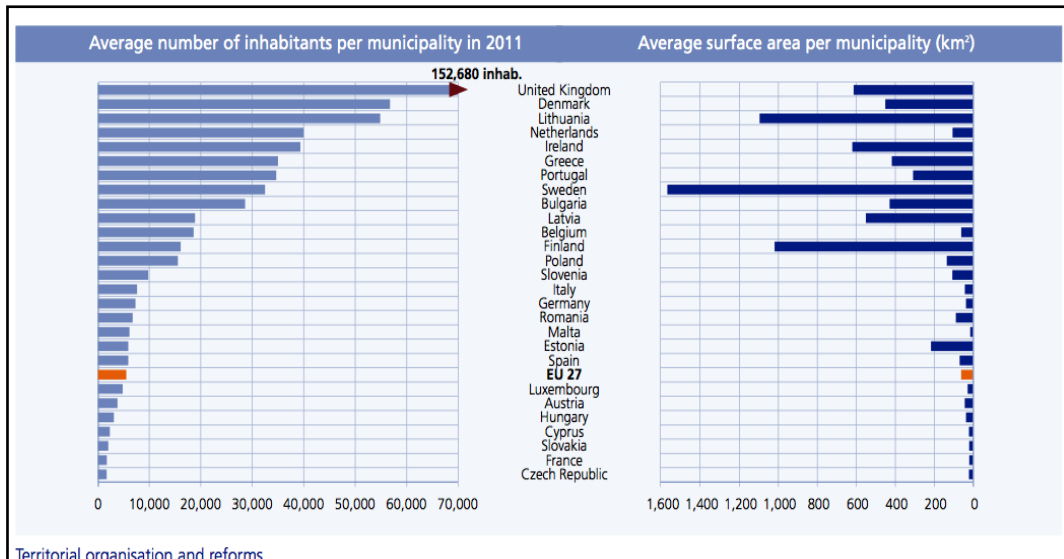


Figure 9 CEMR Sub national public finance in the European Union, 2011, Dexia

2.45 Institutional reforms in countries monitored by the Troika

Territorial reforms have been a key component for countries that have required a monetary bailout. Cyprus joins Greece, Portugal, Ireland, Latvia, Romania and Hungary who have all sought financial assistance. Conditions are attached to all financial assistance arrangements and these form part of the signed ‘memorandum of understanding’ with the Troika. Included in these agreements are ‘major territorial and institutional reforms ... to streamline territorial organisation and to reduce and optimise public spending through reinforcing decentralisation” CEMR (2012)¹⁹.

Reforms in Greece

- decrease in the number of Municipalities
- elimination of 54 prefectures
- replacement of 13 administrative regions with regional authorities
- decentralisation and new Municipal competencies
- longer mandate for local elected officials
- downsizing of civil servants and rationalisation of the local administrations

Changes resulting from the economic situation:

- decrease in state financial transfers
- major cost-cutting programmes
- lower salaries and further staff costs

Figure 10 CEMR Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis, 2013

¹⁹ Ibid, p.7.

Reforms in Ireland

- new local competencies linked to economic development
- recentralisation of water management
- merger of certain countries
- abolition of town councils and creation of municipal districts at the sub-county level
- restructuring of the statistical regions
- reorganisation of local services and establishment of programmes to improve efficiency
- redrawing of some voting district boundaries

Figure 11CEMR Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis, 2013

Reforms in Portugal

- decentralisation of certain competencies in favour of the municipalities
- elimination of 1 500 civil parishes
- significant reductions in financial transfers
- greater cooperation among inter-municipal communities and in metropolitan areas
- cost cutting introduced in local administrations

Figure 12CEMR Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis, 2013

The experts kept these powerful trends in mind in formulating their recommendations.

Conclusion 1.

Based on the current situation in Cyprus and trends in public sector reform across Europe, and reflecting very strong messages from virtually all stakeholders consulted, the experts concluded, in terms of function, finance and structure of local government, that: the status quo is not an option.

3 Local Government Review

3.1 This section details the first three visits undertaken by the local government team in the course of 2013-2014.²⁰ It documents the methodology and principles established, key conclusions, stakeholders interviewed, as well as a timeline of decisions taken regarding local government reform. It also gives an overview of the cross-cutting reforms, and their impact on local government function, financing and structure.

Mission 1

3.2 The purpose of the first mission was fact-finding, data collection and to hear the views of stakeholders. The experts visited and interviewed a wide range of central government and local government officials and other stakeholders.²¹

3.3 The Cypriot Government presented their ambition for a comprehensive reform of public administration through the 'Five Pillars for Reform', namely:

- strengthening the capacity for strategic planning, drafting policy and coordination
- reorganizing the structures and operation of services
- ensuring better use, education and enhancement of the skills of human resources of the public service
- improving the relationship between state and the citizens, in order for the citizens to receive the best possible service
- developing and implementing operating principles and values that must govern public service.

3.4 The 'Five Pillars for Reform' are consistent with current trends of public administration reform worldwide. Successful implementation of these ambitions will require public servants and the Government of Cyprus to embrace four key principles:

- Mobility of staff and resources to support the delivery of outputs and outcomes in line with sectoral priorities
- agility in terms of being flexible and responsive to internal and external environmental factors and able to take and develop opportunities for improvement
- innovation by supporting a culture that promotes initiative and lateral thinking, enabling piloting of new ideas, encouraging sharing of learning and focused on continuous improvement
- customer focus by putting citizens, their needs and aspirations at the centre of government.

²⁰ Specific dates of Mission 1: 25 September- 4 October 2013, Mission 2: 18-22 November 2013, Mission 3: 9-13 December 2013.

²¹ For complete list of officials consulted, see Section 11.

What we heard

3.5 At the outset the experts were presented with the initial position of the Government of Cyprus and an understanding of the critical factors that the experts should consider during the course of their work:

- the size of Cyprus was emphasised in the need for appropriate, fit-for-purpose reform
- strong pressure to increase decentralisation with accountability
- the capacity of local administration is variable and falls short of what is needed
- the direct and indirect costs of sustaining the current large number of local authorities adversely affects the ability of local administration to provide quality services to citizens
- a view from central government that the number of Municipalities and Local Communities should remain
- the proposed new tier of local government was presented as an intermediate between central government and local government
- the key to successful reform is increased mobility between central government and local government and across central government departments
- the absence of individual and organisational performance management impacts negatively on the efficiency and effectiveness of service delivery
- stark concerns over the pervasive and undue influence of *rusfeti*²² on decisions and individuals.

What we found

3.6 Structured interviews with a large number of stakeholders revealed the following:

- good evidence of cross-boundary collaboration on single functions, with regard to water and sewage boards
- some examples of voluntary cross-boundary collaboration and best practice in limited areas (e.g. waste collection)
- a strong appetite from local administrations to plan and manage additional services across the board provided the devolution of powers and responsibility is supported by adequate capacity and resources
- there are systemic problems that hinder further devolution, namely:

²² “The term *rusfeti* in a wider sense describes any act of granting a favour or service. In a political context it is used to describe a favour by a minister or Member of Parliament to party followers, friends or acquaintances”. (Faustman Hubert, *Rusfeti and Political Patronage in the Republic of Cyprus*, 2010, The Cyprus Review 22.2, p.270).

- finance tightly controlled from the centre of government
- a highly centralised and inflexible human resources function
- inflexible working methods
- a lack of transparency on cost, value for money, efficiency and effectiveness of services delivery
- little trust that central government and politicians are serious and engaged about change
- little sense of urgency
- weak civil society with little issue-based lobbying (users mediate through political parties).

What we learned

3.7 Through consultation with the stakeholders much was learnt. The experts concluded that:

Conclusion 2.

- **there is currently no strategic vision for local government and central-local relations**
- **a greater focus on the citizen as a customer and value for money is required**
- **there is a lack of co-ordination and communication between different parts of the central government (“silo approach”)**
- **central government does too much ‘doing’ and not enough ‘enabling’ (i.e. it is operational not strategic)**
- **there is an absence of a culture of performance management and improvement (both at an individual and organisational level)**
- **there is limited practice in peer-driven improvement at an institutional level**
- **there is a need to reach consensus on restructuring or other delivery mechanisms for devolution of powers and responsibilities**
- **successful reform is dependent on HR & PFM reforms**
- **the transition to new models is important (systems of “variable geometry” can be applied whereby different areas of the country or different services move at a different pace)**
- **preserving local identity is important.**

Mission 2

3.8 Decisions on the function, structure and financing of local government need to be considered as a package, because each one impacts on the others. However, without a common position by all parties on the vision for local government, and role and responsibilities of central and local government, there are no parameters against which to judge any proposals for reform, other than the appetite by particular individuals or organisations to change the current arrangements. Having a shared vision is therefore paramount to a view being taken on the roles

of central and local government and on the decentralisation of powers and responsibilities for specific services.

3.9 Finance and structure will then follow function.

3.10 Therefore **the purpose of the second mission** was to create consensus around:

- the vision for local government
- the rights and responsibilities of central and local government;

and to explore consensus around the implications of these for specific services and the structure of local government.

Methodology

3.11 Three workshops were held with key stakeholders who:

- thought strategically and spoke with authority
- understood the political and the service delivery environments
- were committed to meeting the objectives
- attended all three workshops.

3.12 The workshops achieved consensus around ‘a vision for local government’, and stemming from this vision, agreement around the ‘rights and responsibilities’ of central government, local government, and Union of Municipalities and Union of Local Communities.

A Vision for Cyprus Local Government²³

‘The main purpose of democratically elected local government is to serve and represent citizens and Local Communities effectively and accountably.²⁴ To do so it must become the main vehicle of governance and public service delivery at a local level, acting in alignment with national policies and strategies. Local authorities need to be citizen focused, and fit for purpose in terms of leadership, financial viability and overall capacity. They should promote economic growth and deliver efficient and good value services.’

²³ In the current context

²⁴ In line with the European Charter for Local Self-Government

Recommendation 1:

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts a vision for local government.

3.13 Given the agreed vision,

The Rights and Responsibilities of central government are:

‘Acting in consultation and collaborating with local government and in a way that facilitates and enables the role of local government, in the interests of the public good, central government will:

- set the overall strategic and policy framework for local government
- enable efficiency and capacity building in local government. Provide the means for adequate resources for local government to deliver responsibilities
- set national and strategic policy framework for specific services, consistent across all departments, including appropriate national quality standards
- ensure (through legal instruments, policies and strategies), that powers and responsibilities are exercised at a level that is effective and practicable
- act in a coherent and joined up fashion in its dealing with local government, coordinated through the Ministry of Interior.’

Recommendation 2:

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts the ‘rights and responsibilities of central government’.

3.14 Given the agreed vision,

The Rights and Responsibilities of Local Government are:

‘Acting in consultation and collaborating with central government and amongst themselves, in the interests of the public good, local government will:

- promote the prosperity, wellbeing and address the needs of all citizens in their area
- deliver services that are effective and represent good value for money
- be ambitious and focus on improving efficiency and capacity
- Be directly accountable, open and transparent to citizens and to central government for performance targets set, including through published performance standards.’

Recommendation 3:

The experts recommend that the Government of Cyprus consults widely on the basis of the text agreed in the workshop and adopts the ‘rights and responsibilities of local government’.

3.15 Given the agreed vision,

The Rights and Responsibilities of the Union of Municipalities & the Union of Local Communities are:

‘Acting in consultation and collaborating with central government and in the interest of the public good of the whole island, and acting within the legal framework, the Union of Municipalities and the Union of Local Communities will:

- represent the interests of local government to central government
- promote a culture of continuous improvement and sharing best practice
- support local authorities to build their capacity.’

Recommendation 4:

The experts recommend that the Union of Municipalities and the Union of Local Communities adopt the roles agreed in the workshop as their main priorities.

Key Blockers

3.16 identified by workshop participants to meeting the vision and implementing agreed rights and responsibilities were:

- power games, culture and undue interference by political parties
- capacity constraints
- financial constraints
- low expectations and standards
- need to keep local identity
- too much state intervention.

Enablers to mitigate the negative effects of blockers

3.17 included:

- introducing a legal framework, including decisions on restructuring

- establishing a cross-government coordinating body for central government, located within the Ministry of Interior
- introducing a performance management framework and published standards of performance, led by the Ministry of Interior
- strengthening audit and standards of conduct
- implementing a programme of capacity building along the lines of that for central government
- introducing enhanced staff mobility.

Recommendation 5:

Following adoption of a vision, that the Government of Cyprus revisits its legal framework to ensure this supports the implementation of the vision and rights and responsibilities of central government and local government.

3.18 Given the agreed Vision and the description of rights and responsibilities of central and local government, we considered an outline approach to a range of specific services²⁵.

Conclusions

3.19 The main conclusions from this extensive consultative process guide the options for restructuring local government and the approach to a range of specific services. These include:

Conclusion 3.

- **there too many small Local Communities with low capacity and too many small, inefficient Municipalities; District Offices are remote and lack direct accountability to citizens**
- **local ‘identity’ derives from community and place, and not from local government institutions**
- **citizens are concerned with quality and cost of services, not local government structure**
- **it is feasible to specify a strategic role for central government and an enhanced delivery role for local government for each of the 15 services considered (though the final outcome will depend on the agreed structure and financing)**
- **there is broad consensus that more scale is required based around geography, capacity and population size - and that mandatory, rather than voluntary, means of securing this will be necessary**

²⁵ See to Section 6.

- restructuring options range from the radical (e.g. five new authorities instead of existing municipalities and local communities) to the more incremental (from clustering of services, to merging of municipalities and local communities)
- the transition to new models would need to be carefully planned in terms of democratic arrangements (elections etc.), service delivery and capacity building
- in implementing change, communications should focus on the benefits to citizens of larger, more powerful local authorities (e.g. improvements in the efficiency and effectiveness of service delivery); and on ways in which concerns will be mitigated e.g. through approaches to community engagement or one-stop shops for service delivery in more remote areas.

Recommendation 6:

Most importantly, this work established the key principle that the citizen should be the lens through which the Government of Cyprus should consider all aspects of the local government reform programme.

Mission 3

3.20 In the course of Mission 3, the experts met with the Permanent Secretary of the Ministry of Interior, Ministry of Interior officials, Ministry of Finance officials and District Officers. They also participated in presentations of HR Reforms, Management by Objectives (MBO) and Sectoral Presentations (MoE, MANRE, and MoH).

3.21 Taking into account representations from the Union of Municipalities and the Union of Local Communities, the final list of services to be addressed in this report was agreed:

- Community Infrastructure Planning (both theatres, museums and sport facilities),
- Environmental Impact Assessment,
- Hygiene Inspections,
- Landscaping of Government Buildings,
- Landscaping of roads,
- Parks,
- Public Order and Traffic Offenses,
- Roads,
- School Boards,
- Town Planning (development plans),
- Traffic Management,
- Transport,
- Waste management and Pollution control,

- Water boards and Sewage Boards,
- Welfare.

3.22

Focused interviews were held with officials from departments responsible for the services to be addressed, who were asked, given the vision for local government, what changes they envisaged to their service in respect of:

- policy and strategy
- implementation and delivery of service
- monitoring and performance
- transition: implications for the central-local relationship
- how transition would occur
- necessary capacity building measures
- constraints and blockages and how to mitigate these
- the legal framework under which the service is currently delivered
- whether the legislation needs amendment.

What we learned

Specific services

Conclusion 4.

For specific services, there was general consensus that the strategic and policy functions will remain with central government, and that central government will also continue, where appropriate, to set standards and monitor performance. In most cases, the operational delivery of services was envisaged to rest with local government, supported by a strong focus on capacity building and skills transfer from central to local government during the transition period.

3.23 Details of proposed delivery of a range of services are outlined in Section 10, Appendix.

Ministry of Interior

3.24 The Ministry of Interior is due for a holistic functional review in the next phase of implementation of the MoU.

3.25 It has written a strategic plan, and a central unit will be created in the Ministry to implement it. It also intends to set up an Internal Audit Unit, reporting to the Minister, to monitor performance against delivery of the strategy.

3.26 At this stage the strategic plan contains no detail on local administration planning, other than its intention to take into account the recommendations of this report.

3.27 The Ministry is considering ways of increased collaboration between local authorities, creating economies of scale in service delivery. The local government component of the strategy will be citizen focused and guided by the principles of increased Accountability, Efficiency, Effectiveness of Service Delivery, Transparency and Participation.

Conclusion 5.

The Ministry recognises that it has a key responsibility to provide effective coordination between central government ministries vis-à-vis their policies and relationship with local government, and to ensure that adequate support and capacity (both in terms of human and financial resources) is provided to local government to implement additional responsibilities.

3.28 No specific changes were discussed regarding the role and responsibilities of District Offices and their relationship with local communities, although (without pre-empting the findings of the upcoming Ministry functional analysis), it was agreed that District Offices will be impacted by:

- the implementation of the agreed vision and the rights and responsibilities of central government and local government, and
- the option that the Government of Cyprus will choose regarding the future structure of local government.

3.29 Further work will therefore need to be undertaken in any scenario to determine the impact on District Offices, who hold valuable knowledge and experience of working with Local Communities and of service delivery at local community level.

Cross-cutting reforms

3.30 Current studies to reform Human Resource Management (HRM) and Public Finance Management (PFM) and to assess organisational performance identified a number of key challenges across the public service:

- lack of transparency
- absence of performance management
- inefficient service delivery
- lack of strategic vision
- limited culture of improvement
- financial information which is not standardised; absence of service level budgets
- lack of local accountability or monitoring
- lack of local government autonomy over budgets.

3.31 The HRM and PFM Reports seek to address how many of these challenges can be overcome. The successful implementation of the HRM and PFM Reforms is key if local government reform is to realise the expected gains in:

- improved effectiveness and efficiency of service delivery
- increased citizen focused services and systems, and
- increased transparency and accountability.

PFM Reform

3.32 The PFM reforms present technical advice on the modernisation of Cypriot public finances, in order to re-establish a stable basis from which services are planned and delivered.

3.33 The current PFM reform focuses primarily on three key public financial management areas, namely: (i) developing a medium-term budget framework (MTBF); (ii) establishing a fiscal council (FC); and (iii) developing a Fiscal Responsibility and Budget Systems Law (FRBSL).

3.34 A significant portion of the PFM reform has been underpinned with the passing of the so-called 'Umbrella' Fiscal Responsibility and Budget Systems Law (FRBSL) in February 2014.

3.35 Of particular relevance to local government reform is the fact that the Umbrella Law envisages an important shift from input-oriented budgeting to output-oriented budgeting and the delegation of substantial powers, responsibilities and accountability to Line Ministries, state owned enterprises and local government to deliver on their strategic plans. Relevant provisions of the Umbrella Law will extend to local authorities in 2016.

3.36 In particular, **the Umbrella Law** entails:

- a) A single strategic plan for each Ministry that will establish the business objectives of each Ministry and guide the allocation of both financial and human resources. Overall, line ministries will gain more devolved powers and financial control, be accountable for their budgets, be required to prepare strategic plans for the upcoming year, and prepare plans and budget forecasts for the next 3 years.
- b) The PFM will be implemented in an incremental way starting on a pilot basis with the Ministry of Education and Culture, the Ministry of Energy, Commerce, Industry and Tourism, Ministry of Communications and Works, MANRE, and also the Municipality of Nicosia. It is envisaged that these four pilot ministries and the one Municipality will strengthen their strategic planning, policy making, output budgeting, implementation and monitoring delivery of capabilities by April 2014, so that they will be able to comply with the Umbrella Law starting from the 2015 budget cycle.

The requirements under the FRBSL are largely the same for municipalities and communities (Annex 7 outlines the relevant sections – from the unofficial language translation of the FRBSL). For both it involves the following main provisions:

The FRBSL mandates the Council of Ministers, through the Fiscal Strategy Statement, to establish any rules for debt or the balancing of local government budgets. [Article 92 (1)]

The FRBSL contains also a range of new measures related to local government oversight and control. These measures require that municipalities and communities:

- c) incorporate the development budget into the annual (current) budget (this applies only to municipalities);
- d) produce forecasts of revenue and expenditure in the annual budget with a quarterly breakdown for the whole fiscal year [In addition, the FRBSL mandates the Minister of Finance, in consultation with the Minister of Interior, to require a municipality or community to allocate an annual appropriation of expenditure to each quarter, and if such allocation is made, the municipality or community may not spend more than the allocated amount within that quarter without prior approval from the Minister of Finance];
- e) submit a monthly in-year report on revenue and expenditure, with updated forecasts of revenue and expenditure for the remainder of the year;
- f) develop multi-year strategic plans in line with the strategic plans for central government entities;
- g) The FREBSL also provides for budget preparation timelines for municipalities and communities that align their budget process with the Central Government budget cycle. [Article 93 (4) and (5)]
- h) The FRBSL contains a range of possible sanctions against municipalities or communities that do not comply with the law, including the possibility to appoint a financial administrator, or to suspend, in whole or in part, the power of the local council. [Article 95]

3.37 As from the 2016 budget cycle therefore all local authorities will need to comply with the following:

- Municipalities and communities have to prepare multi-year strategic plans.
- Budgets have to be aligned with the strategies.
- Rules for budget preparation will be determined in the fiscal strategy statement, which the MoF prepares and the CoM approves at the beginning of the budget process.
- The timing of the budget preparation is synchronized with the central government budget.
- Municipalities and communities have to prepare and submit monthly reports on budget execution and updated forecasts for revenues and expenditures.

3.38 In addition, the provisions for public investment management [Section XI of the FRBSL] apply to the entire public sector and thus also to local governments. They determine how investment projects are to be selected according to strict affordability and viability criteria. All project proposals will be checked by the MoF against these criteria.

3.39 As with Line Ministries, the implementation of the PFM by local government will be incremental. The long term vision is that the Ministry of Interior will transfer a consolidated grant to local government based on:

- the responsibilities of local authorities
- the services that the local authorities have to deliver
- the financial resources that are needed for the local authorities to deliver these services effectively and efficiently.

3.40 Some of the key challenges that Municipalities and Local communities in their current form will encounter in complying with the Umbrella law include very limited capacity and no coordinated IT system (neither local nor web based) that would allow them to easily comply with the reporting requirements.

3.41 In addition to challenges coming from the new requirements, the experts understanding from the annual reports by the Auditor General (as previously mentioned) is that there is already a lack of existence of proper books of accounts; lack of compliance with existing laws and regulations, for example on procurement; not keeping track of budgets; and lack of supporting documentation for actions taken.

HRM Reform

3.42 The HRM reforms will be aligned with the Umbrella Law's implementation. Indeed, in order for Line Ministries, SOEs (state owned enterprises) and local government to deliver on the implementation of their strategic priorities and plans, they will need adequate delegated powers to manage their human resources as well as their budget. Hence, successful implementation of the HRM and PFM reforms are intrinsically linked and dependent on each other. They represent a package of systematic changes that aim to create a more efficient, effective and transparent public sector that can flexibly adapt to the challenges ahead.

3.43 The HRM Reforms:

- aim to reduce the high wage bill and its strain on public resources
- address key HRM policies and practices
- outline wider essential reforms to reinforce HRM practices
- stress the need for an integrated approach to reform, involving correct sequencing and linkage of proposed reforms.

3.44 Key HRM changes include

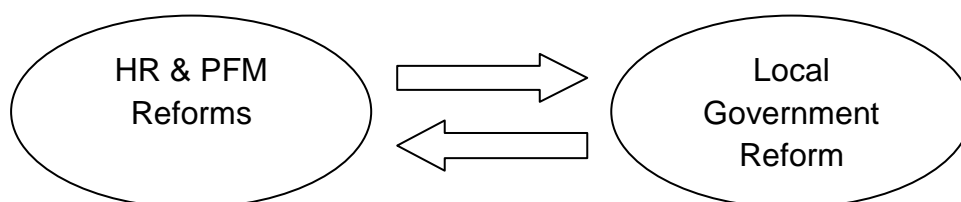
- Limiting the influence of *Rusfeti*
- Ensure that no major HRM personnel action can be controlled by any single agent. Reduce the odds of a “captured” Public Service Commission (PSC). Ensure greater contestability in major HRM actions. Increase the role of formal testing in the recruitment and selection processes. Create an administrative court as an independent redress mechanism for HRM disputes.
- Enhancing Managerial Responsibility
- Hold managers accountable for the performance of their unit. Provide managers with training to enhance their performance management skills.
- Revamping the Performance Appraisal Process by:
 - a) assessing staff contributions to policy and programme objectives;
 - b) disciplining poor performers and
 - d) Institutionalise checks on the performance ratings to ensure fairness and reliability.

3.45 The ‘**Wider Essential Reforms** to Reinforce HRM Practices’ require:

- strengthening and/or establishment of codes of conduct for public officials and politicians with independent regulators to monitor and enforce compliance
- introducing whistle blowing protections
- initiating a wide-ranging public debate into the ethical standards within the public sector, involving all political parties and public actors to achieve a cross-party political agreement on acceptable standards and methods of monitoring and enforcement.

3.46 Finally, the ‘**Integrated Approach**’ stresses that the proposed reforms will have little impact if they are undertaken in isolation or not properly sequenced.

3.47 To a large extent therefore, a two-way dependency exists here, because the HR and PFM reforms are in turn predicated on local government having increased capacity, accountability and responsiveness.



Box 1: Two-way dependency of HR, PFM and local government reforms

Mission 4 – Reactions to ‘Interim Draft Report’

3.48 This section details the fourth Mission, which took place after the submission of the draft interim report on the 22 January 2014, and as such represented a shift in direction for the experts’ work. The section outlines the purpose of the visit, the stakeholders met, a summary of the overall reaction to the draft interim report, and a discussion of how to approach restructuring.

3.49 The purpose of the 4th mission was to:

- receive a steer from the Government of Cyprus on their preferred way forward
- test the propositions in the draft interim report
- stimulate discussion on the key issues
- gather information on cost of change and budgets of local authorities
- agree timescale and handling for the remaining stages of our work.

Overall Reactions

3.50 The experts began by emphasising the strong interdependency between the reform of local government and planned changes to human resources processes and public finance management (including through the “Umbrella Law”). They found poor awareness of the significant requirements of the Umbrella Law at senior levels inside and outside government. All public bodies handling financial resources (e.g. Local Communities and School Boards) will need to comply with its requirements.

3.51 The draft interim report was focused around a package of reforms relating to function, structure and finance, for both central and local government. There is now a strong consensus that the *status quo* is not an option.

3.52 The bulk of the reaction to the report focused around the issue of local government structure and it remains a significant challenge to encourage central and local government stakeholders to focus on wider issues, and from a customer perspective rather than a provider perspective.

3.53 The experts heard a broadly positive response to recommendations in the draft report on:

- the need to adopt a citizen-focused approach to be reflected in:
 - a vision for Cypriot local government
 - a set of rights and responsibilities for central government
 - a set of rights and responsibilities for local government
 - a set of rights and responsibilities of the Union of Municipalities and the Union of Local Communities
 - a new role for the Ministry of Interior, leading and coordinating with other Ministries to set an overall strategic framework for local government, including policy frameworks, performance management, and facilitating and supporting capacity building

- consensus that what is proposed is a package of reforms that are interdependent for MoI, Line Ministries and local authorities, as well as HRM and PFM.

3.54 There remains poor information on budgets and costings available to the experts, which inhibits assessments of the sustainability of options for change and the costs and savings of transition.

Functions

3.55 Discussions on the recommendations in the report on specific functions revealed:

- a broad consensus over the direction of travel, towards decentralisation, and on the proposals for specific services.
- a requirement for resources, people and infrastructure to accompany the transfer of functions (i.e. requires transfers of money and people etc. between organisations)
- concerns from the Union of Municipalities that central government proposed to transfer low priority/low income services
- interest in the rotation of inspection personnel to preserve independence and objectivity
- interest in models of outsourcing but concerns over redundancies
- but the specific services to be transferred and the degree of decentralisation will depend critically on the chosen structure and the capacity that will generate.

3.56 The next steps for the Government of Cyprus are to:

Recommendation 7:

- **agree the list of services to be assigned to local government**

Recommendation 8:

- **consider the proposals and recommendations in the Appendix on each individual service and use these as a basis for delivering a substantial shift in responsibilities towards more decentralised delivery of services**

Recommendation 9:

- **calculate the number of people working in central government in the roles/responsibilities that will be transferred to local government (both from District Offices and Line Ministries)**

Recommendation 10:

- **calculate the money spent by central government in exercising the roles/responsibilities that will be transferred to local government (both from District Offices and Line Ministries)**

Recommendation 11:

- **based on the four points above, agree a ‘new burdens’ procedure to manage the transfer process and draw up budgets for new local authorities.**

Finance

3.57 The majority of financial information which is available is based around organisational structure (i.e. the cost of organisational units), and not the cost of delivering individual services.

3.58 Also, financial information for local authorities is not standardised between authorities.

3.59 Moreover, there is no experience or information available in Cyprus on costing changes in structure or services.

3.60 There was general agreement that:

Conclusion 6.

- **the costs of change must deliver a payback in the short-medium term**
- **it was essential for new local authorities (in any model) to be financially sustainable and to conform with the Umbrella Law.**

Conclusion 7.

There is also a need to consider whether the Umbrella Law needs to be supplemented by internal checks in local authorities on inappropriate expenditure and by strengthened audit practice.

Structure

3.61 As mentioned above, the overwhelming majority of comments concerned proposals for changes to local government structure. Much of this was contradictory and confusing – people argued for new structures and for retaining the existing bodies; for larger and for smaller bodies; for enhanced local government and for a strong, continuing role for central government.

3.62 During the gap between Missions 3 and 4, the experts developed five restructuring options for discussion, which were set out in the draft interim report as follows:

<u>Interim Draft Report Restructuring Options for Discussion</u>

Option 0 – existing local government structure

Option 0 represents the existing structure of local government in Cyprus. It consists of 30 Municipalities in urban areas and 350 Local Communities in rural areas. These local authorities cover all of the territory of the island, in a directly elected unitary level structure. Generally, Municipalities have much greater powers and responsibilities and larger budgets than Local Communities; there is also considerable variation within the groups of Municipalities and Local Communities on powers, responsibilities and budgets.

Option 1 – a new tier of District Councils

Option 1 is the introduction of a new tier of local government (District Councils), intermediate between the central government structure of District Offices and the existing tier of Municipalities and Local Communities, both of which remain in place. Boundaries are aligned with those of the central government District Offices. Powers and responsibilities will be drawn both from those exercised by existing District Offices and from Municipalities and Local Communities. Under one variant, the political composition will be a mixture of nominated members from Municipalities and Local Communities and directly-elected members. Resources will be transferred from District Offices, Municipalities and Local Communities.

Option 2 – restructuring Municipalities and Communities

Option 2 involves large scale restructuring of existing Municipalities and Local Communities, through mergers, resulting in a much smaller number of local authorities, of roughly equal size and capacity. Boundary changes of this nature are normally proposed by an independent body, to avoid accusations of gerrymandering. Public consultation will be necessary, but there is no reason why the decision-making process should be complicated or extended.

Option 2a – clustering Municipalities and Communities

Option 2a involves large scale clustering of existing Municipalities and Local Communities, to deliver services with greater economies of scale. Boundaries for clustering could be set using a similar process to Option 2. Clustering would need legal underpinning to bind the parties together and provide certainty that the arrangement would be sustainable. Clustering could begin with a more limited set of services and pooled finance. As such, Option 2a can evolve over time to include more services. It can be seen as a means of migrating over time to Option 2.

Option 3 – 5 new local authorities

Option 3 involves the introduction of 5 new directly elected local authorities, with boundaries that match existing District Offices. These would be formed by combining District Offices with existing Municipalities and Local Communities within their areas.

Figure 13 Draft Interim Report Restructuring Options for Discussion, January 2014

3.63 During Mission 4, we heard strong arguments and a degree of consensus around the following:

Conclusion 8.

- **the new structure needs to deliver economies of scale and capacity**
- **new local authorities need to be of broadly equal size**
- **democratic accountability is best served by directly elected authorities**
- **the need for mechanisms to secure community engagement and empowerment**
- **the proposals must cover Municipalities and Local Communities in a consistent fashion (no urban-rural divide).**

3.64 Various parties argued for:

- a re-defined Option 1 from the draft interim report (i.e. a 'second tier' of 5 new local authorities)
- Option 2 (i.e. restructuring to a maximum of ~10-15 new single tier local authorities)
- Option 2A (mandatory clustering of existing local authorities across Cyprus).

3.65 Based on what we have heard, we propose that the final options report should focus on two renewed Options: Options A and B (refer to Section 8 for further details).

3.66 Depending on the restructuring chosen, there may be a need to settle new boundaries encompassing both Local Communities and Municipalities and overcome issues around forming the new local authorities by merging existing authorities. One way forward might be to form the new local authorities around the larger/more successful Municipalities. Possible criteria for an independent body to use in settling boundaries might be: population size, geography and land area, identity and history, and practicality in implementation.

3.67 Boundary changes of this nature are normally proposed by an independent body, to avoid accusations of gerrymandering. Public consultation will be necessary, but there is no reason why the decision-making process should be complicated or extended.

3.68 In order to provide confidence that this task can be accomplished, we set out below an initial exploration of how to approach a local authority boundary review. This should **not be treated as a recommendation**, as we recommend the appointment of an independent, credible body to undertake this task. Our assessment is certainly not based on sufficient local knowledge, but gives an idea of how this process could work.

A Simplified Example of How to Approach Boundary Review

This simplified example assumes that existing District Office boundaries are used as a guide for the boundary exercise. It is based on the premise of using the larger Municipalities as a “core” for new local authorities, of roughly equal size. (Of course, there are other ways to approach the exercise.)

If the desired outcome is between around 10-15 (maximum) new local authorities, then this implies a range of 56k-84k in average population.

Famagusta

There are 4 Municipalities in Famagusta, of which Paralimni is by far the largest (15k). It could absorb the remaining Municipalities and the 5 Local Communities, to form a new local authority with a population of 46.5k.

Paphos

There are 4 Municipalities in Paphos, of which Paphos is by far the largest (33k). It could absorb the remaining Municipalities and the 116 Local Communities, to form a new local authority with a population of 88k. Alternatively, if this was felt to be too large or if the task of absorbing so many Local Communities was too great, a second Municipality, on the west or north coast, could act as a core for a second new local authority.

Larnaka

Larnaka has 6 Municipalities, of which Larnaka (51.5k) and Aradippou (19k) are by far the largest. These could absorb the remaining Municipalities and an average of 24 Local Communities each, to form 2 new local authorities with an average population of 72k.

Limassol

Limassol has 6 Municipalities, of which Limassol is by far the largest (101k) and should remain untouched (other than perhaps adding some Local Communities). The remaining Municipalities are fairly evenly populated: 14.5k, 14.5k, 13.5k, 22.5k and 11k, so there are various permutations here, depending on geography. The remaining pop is 134k. Therefore we could assume 2 additional new local authorities, with an average pop of 67k, making 3 in total for Limassol, each of which would have to absorb an average of 35 Local Communities.

Nicosia

Nicosia has 10 Municipalities, of which Nicosia (55k), Egkomi (18k), Strovolos (70k), Aglantzia (21k), Lakatamia (38k) and Latsia (17k) are the largest. It also has the greatest concentration of Municipalities, around the capital, and the largest Local Communities hinterland (72k). If we leave Nicosia and Strovolos untouched (other than perhaps adding some Local Communities), this leaves a population of 204k. Therefore we could assume 3 additional new local authorities with an average pop of 68k. The outcome would need to deal with the significant urban-rural geographical split. Each new local authority would have to absorb an average of 21 Local Communities.

This gives an outcome of a total of 12 new local authorities, with an average population of 70k (ranging from 46.5k to 101k).

Structure – Clustering

3.69 It is important to consider the role of clustering in the new structure.

3.70 Most stakeholders agreed that voluntary clustering is currently limited in scale, credibility and sustainability, and is therefore not the basis for a new model.

3.71 There are also issues with mandatory clustering:

- how the clusters are formed
- how they operate
- who takes decisions
- who deals with conflict
- who is accountable and
- that the component bodies must each meet the demanding requirements of the Umbrella Law.

Conclusion 9.

Our provisional conclusion is that mandatory clustering is therefore second best to formal restructuring, in meeting the overall objectives of local government reform. We consider clustering only in support of restructuring Options, and not as an Option in its own right.

3.72 In order to further explore the options for reform on function, finance and structure, the experts agreed with the Ministry of Interior that:

- a) the extent of analysis possible in the report would be dependent upon robust costings, which in turn depends on adequate, timely data, well analysed by the MoI
- b) conclusions on restructuring will inevitably be high level (e.g. there will be no grading structures in new bodies)
- i) capacity assessments of the new local government bodies (and to some extent the cost-effectiveness of different options) will be expressed in relative terms.

4 Findings and Recommendations: Central Government

- 4.1** This section outlines the broad issues identified during the four Missions, and the conclusions and recommendations the experts have developed regarding central government (including Line Ministries) and their relationships with local government.
- 4.2** A vision for local government and the rights and responsibilities of central government and local government were agreed in the workshops facilitated by NSGI during the second Mission.²⁶ In light of this, blockers to reform were identified in the course of all three missions, which have been outlined in detail in Section 3.
- 4.3** The strong interdependence of the PFM and HRM reforms is worth reiterating here. The extension of the implementation of the Umbrella Law to local government and the findings of our review require a fundamental transformation on a number of fronts:

The role, responsibility and structure of the Ministry of Interior

- 4.4** As far as local government is concerned, the Ministry of Interior needs to incorporate in its strategy and action plans a clear roadmap showing how central and local government will implement the agreed vision for Cypriot local government, the rights and responsibilities of central government, and the rights and responsibilities for local government. The strategy, plans and roadmap need to be costed and implemented within the new budget cycle.

Recommendation 12:

We recommend that the role of the Ministry of Interior should:

- **set an overall strategy, policies, legal framework, guidelines and standards for local government activities, including its relationship with central government and citizens**
- **provide high levels of support and transfer of capacity to local government in many areas such as: preparation, implementation and monitoring of multi-year plans, moving from input-oriented budgeting to output-oriented budgeting; managing performance of staff; increasing transparency and accountability both to central government and to citizens; promoting a culture of continuous improvement in service delivery**
- **monitor the performance of local government in implementing the vision and strategy, to deliver high quality services within budget,**

²⁶ See Section 3.

through setting appropriate targets and requiring the publications of consistent performance information

- **provide effective coordination of Line Ministries in relation to their relationship with local government, to ensure consistency of approach and provision of adequate resources and support to local government to provide services in accordance with each line ministry's strategic plan.**

4.5 The structure of the Ministry will need to reflect its new role and functions. Helpfully the Ministry has already created an office responsible for the strategic process and an internal audit office. The functional analysis due to take place will review the function, role and size of the District Offices in view of decisions on the new local government structure.

4.6 Without pre-empting the outcome of the functional review, we envisage that the scope and nature of the District Offices will change substantially and much of the capacity of the District Offices could be transferred to local government.

The role and responsibility of line ministries vis-à-vis local government

4.7 Similar to the Ministry for Interior, Line Ministries will need to address their relationship with local government within their strategies and annual plans. Line Ministries' primary role should be to set policies, guidelines and standards for local government activities/sector services, in consultation and in collaboration with local government, and to monitor the performance of service delivery.

4.8 An important role for Line Ministries will be the provision of resources (financial and human) to deliver services at the required standards and to support and transfer capacity to enable local government to meet the required standards. This will also require substantial support from the Ministry of Finance to local government to implement the PFM requirements.

The relationship between central government and local government

4.9 From 2016, local authorities will be expected to draft strategic plans for the upcoming year as well as a 3 year rolling plan outlining services they will deliver, quality of services, cost of services and their performance monitoring framework. Local government will also account for their budget implementation and delivery of outputs. This process will require a high level of coordination, coherence and a joined-up approach between local government and central government (MoI, MoF and Line Ministries) as there is a clear interdependence between the ability of Line Ministries and of local government to deliver their strategy objectives. It is in the best interest of both levels of government and of cross-cutting ministries that the appropriate resources in terms of finances, skills, knowledge and expertise are placed at the right level of government. The Ministry of Interior should lead this process.

The relationship between Municipalities and between Communities

4.10 Following the same argument, and subject to decisions on restructuring, adjacent Municipalities and Communities will need to ensure that their strategic plans and 3 year action plans, objectives, outputs and budgets are fully

complementary to each other and completely joined-up. Failure to do so would impact negatively on citizens as they would receive sub-optimal services through fragmentation and duplication of services, and waste of precious human and financial resources.

The function, structure and capacity of local government

- 4.11** Given the above, implementation both of the PFM and our recommendations mean that local government authorities need to strengthen their capacity in line with the vision for Cypriot local government and the rights and responsibilities of local government.
- 4.12** The structure of local government will need to support the new functions and responsibilities in terms of organisation, democratic representation, and increased size and capacity. Sector-led improvement and peer support should play a leading role here.
- 4.13** Achieving these ends will be challenging. The reward will be high performing, multi-purpose local democratic bodies which are directly accountable to local people. The experts take the view, based on widespread European experience, that this is likely to be more efficient and effective than establishing a series of new single-purpose structures, based on local authority cooperation to deliver specific services - a variant which is signalled in our Terms of Reference. We have therefore not explored the latter option further.

5 Findings and Recommendations: Functions

5.1 This section presents proposals for changes to local government functions, with 15 services addressed, and gives detail of links with the sectoral reviews of the MoEC, MANRE and the MoH.

5.2 Due to the low capacity of local government, central government (particularly Line Ministries) currently perform a wide range of typical local government functions. Various stakeholders have confirmed that transferring these functions to local authorities is appropriate.

5.3 The general direction of travel will thus, with some variation, involve strengthening local authority capacity in order to enable the smooth delivery of their new responsibilities.

5.4 The following section will examine key local government services with regard to:

- the current split of roles and responsibilities between central and local government
- our initial proposal for change
- the transitional steps which may be necessary.

5.5 For the individual service recommendations, see the Section 10, Appendix 'Individual Service Recommendations'.

5.6 It is important to note that the services have been considered at this stage, in a way that is largely independent of local government structure, in order to make proposals which remain valid, irrespective of which structural option is chosen. However, the more radical the option which is chosen (in Section 8), the greater the local capacity which will be secured, and consequently the greater the opportunity for decentralisation of services to local level. As such, these initial proposals will have to be revisited once decisions have been taken on structure and finance, to deliver an overall package for reform which is balanced and effective.

Conclusion 10.

There exists the potential for further functions to be transferred over time to local government level, as capacity builds. The intention is for new local authorities to have the intrinsic capacity and adaptability to flexibly respond to changing circumstances.

5.7 In the medium term, we envisage the establishment of a routine central-local government dialogue on the appropriate allocation of powers and responsibilities.

Sectoral recommendations

5.8 Particular services in the World Bank sectoral reports are of relevance to local government reform, namely:

- School Boards in the MoE report, Water & Sewage Reports in the MANRE Report, and Hygiene Inspections in the MoH report.

5.9 Our recommendations, as detailed in the Appendix, agree with the December 2013 version of the individual World Bank sectoral report recommendations²⁷, which propose:

5.10 MoE - School Boards

- increased power of schools in managing their own affairs
- strengthening of the functions of the District Education Offices
- a considerable reduction in numbers/mandate.

5.11 MANRE - Water Boards and Sewage Boards

- strengthen water board and sewage boards in terms of mandate and breadth of service

5.12 MoH– Hygiene Inspections

- core service to remain at centre (currently)
- scope for better co-ordination of inspections between competent authorities
- medium-term move towards consolidated Food Inspection Authority.

²⁷As the final version of the World Bank sector reports are due to be submitted on the same date as this report (31st of March, 2014), our recommendations refer to the World Bank draft sector reports sent to us by PADP in February 2014.

6 Findings and Recommendations: Finance

6.1 This section presents the financial made available to NSGI and addresses the financing of future bodies, both in terms of how the new bodies will be financed, and how much the reform itself will cost. There is not sufficient data was made available to the experts to cost the latter. However, from our UK experience of costing reform, we present key costs and savings typically incurred, and guiding principles for how estimates of costs and savings can be made. We go on to explain how reliable assessments can be made of the relative costs of different restructuring options.

Financial Information Made Available on Request to NSGI

6.2 In the feedback received on the Draft Interim Report, the experts noted strong criticism of the lack of financial analysis. In order to further clarify the approach taken by the team, and the context within which the current financial analysis was delivered, the experts would like to emphasise:

- there has been a significant lack of financial data made available to NSGI
- the data made available has predominantly been raw, fragmented and unanalysed
- the data made available has not allowed useful comparisons to be drawn, since it has major inconsistencies across different bodies
- the data made available is predominantly at organisational level, and not structured around services. This makes it difficult to estimate the current costs of service delivery
- the data made available, and first requested by NSGI in December 2013, around District Office functions and Local Communities financial data, was sent one working day prior to the report deadline, which did not allow time for analysis.

6.3 With regard to the last point on the latest information received, the experts believe that, despite the timing, the data presented is a real step forward. This will be very useful for the further financial analysis necessary in implementation of local government reform. This is elaborated upon in Section 9 'Next Steps', where the experts highlight the work ahead for the Government of Cyprus.

6.4 For details of the data requested and received by the NSGI team, see Annex 8. The reader will note that the section also contains unmet requests for policy clarifications following discussion of the Draft Interim Report, which may no longer apply as the work has evolved.

Financing Local Government Restructuring

6.5 There are two aspects to financing local government restructuring, which need to be considered separately. The first is the costs and savings from local government restructuring; the second outlines how new bodies will be financed.

Conclusion 11.

It has not been possible to date to estimate the costs and savings of restructuring options, due to the lack of available data. However, the following paragraphs outline how costs and savings would be estimated, if data were available.

Costs and savings from local government restructuring: lessons from the UK

6.6 There are many ways of classifying costs in local government. But for the purposes of an analysis of restructuring, the basic distinction to be drawn is between:

- service costs- the cost of providing services directly to the public
- corporate costs- such as finance and HR
- democratic costs- including the cost of salaries/allowances to elected politicians and the (largely) staff cost of servicing the political machine i.e. meetings/committees, producing papers/minutes etc.

6.7 Service costs can be further broken down by:

- i. Employee costs – the costs of employees directly engaged in providing services to the public – e.g. social workers
- ii. Supervisory and managerial costs – as distinct from the senior management costs of the organisation which (together with corporate costs) generally, occur because the organisation exists, regardless of the services that are being delivered
- iii. Transport related expenditure – which for certain services (e.g. social work) can be relatively large
- iv. Supplies and services – which in English local government, where many services (or elements of the service) are now provided by external contractors, can be high and, in the context of restructuring, raise significant issues about contracts at the point of reorganisation
- v. Income – in some circumstances, authorities can recover the cost of providing services via fees and charges

6.8 Service costs can also be broken down to include an element of premises related expenditure, but it is probably more helpful to consider this separately. So to service, corporate and democratic costs, we add:

- i. Premises related expenditure – which includes both revenue and capital expenditure
- ii. Reserves and liabilities – the extent to which the separate authorities that are to be merged have financial reserves (or liabilities) that become subsumed within the new authority.

6.9 The major costs associated with restructuring (i.e. costs that would not normally have been incurred, but for restructuring) are:

- i. Redundancy/harmonisation – the cost of redundancies made in response to the reorganisation; and the costs of harmonising the terms and conditions of employees of the “new authority”
- ii. Contract termination/assignment – the cost of assigning the contracts inherited from the “old” authorities to the “new”, or the cost of terminating those contracts.

6.10 Experience of restructuring in English local government suggests that it is difficult to generalise about the scale of costs or savings arising from particular forms of reorganisation. Actual costs and savings – even from broadly similar reorganisations – can vary significantly depending on the organisational structures that existed in the authorities prior to reorganisation; the degree of “inefficiency” present in those structures (and therefore the opportunity to drive efficiency savings); and decisions taken by the “new” authority about its organisational and operating structures.

6.11 It is, however, possible to indicate the areas in which costs and savings are likely to arise, depending on the form the organisation takes. In thinking about this it is important to look at the reorganisation in terms of:

- i. how services are delivered pre- and post- reorganisation and
- ii. the overall number of authorities pre- and post- reorganisation.

6.12 In terms of service delivery:

6.13 A) if services are “merged” – i.e. the situation that applied in England when a single unitary covering a large geographical area took on the functions of a number of predecessor district councils which had delivered those services over smaller geographical areas:

- makes little, or no difference to the cost of frontline delivery (because, by and large, you need the same number of frontline staff to deliver services)
- makes modest savings to management and supervisory costs
- makes longer term savings on supplies and services, through the rationalisation of contracts and potential for economies of scale, but these are not realised in the short term (by and large it makes better financial sense to maintain the contracts that are inherited and rationalise them at the point they fall-in. In the short-term, there can even be a small cost to the authority as a result of having to re-assign contracts)
- income can increase, or decline, depending on the decisions of the new authority on levels of fees and charges etc. In a merger situation you tend to either “level up”, or “level down”, depending on the fee levels inherited from the merged authorities.

6.14 B) if services are “split” – i.e. a service delivered, pre-reorganisation, by a large geographical authority is, post-reorganisation, delivered by two or more authorities:

- little or no difference to the cost of frontline delivery
- increased management and supervisory costs
- increased contract costs – unpicking the contract arrangements in this situation can be complex and impose costs – does a single contract for the larger geographical organisation continue to “service” the two, or more newly created authorities and if so, which “leads” on the contract. Or does one authority take on the contract, including any penalty clauses imposed as a result of lower volumes and leave the other authority free to negotiate a de-novo contract with the same, or a different supplier.

6.15 In terms of wider costs/savings:

6.16 A) If services are merged – i.e. there are fewer authorities providing services to a geographical area post reorganisation:

- savings as a result of fewer senior managers, overall, and only one authority delivering corporate functions – e.g. a single authority only requires a single CEO, Directors etc and one finance function, HR function etc
- savings on democratic services – depends to some extent on the number of politicians post-reorganisation, but generally, reducing the number of authorities results in fewer politicians, and savings on salaries/allowances and reductions in the costs of servicing the political machine
- savings from property rationalisation – reducing the number of authorities and senior managers and corporate functions/staff, tends to create surplus property
- higher short-term costs as a result of redundancy – because you do not need all the senior managers that existed in authorities pre-reorganisation and therefore cannot deploy them across the new authorities.

6.17 B) If services are split – i.e. the reorganisation results in more authorities:

- increased costs of senior management and corporate services, as each organisation will have its own senior management teams and corporate services
- increased democratic costs – as the overall number of politicians tends to increase
- potential property costs – as each new organisation seeks to house its senior management/corporate teams and establish its own “identity” in the geographical area over which it delivers services
- but, tends to reduce the short term costs of redundancy, given the increased need, across the area, for senior and management staff.

6.18 The above analysis is highly generalised and, in practice, different authorities found different solutions to some of these problems – shared services were sometimes maintained in “splits” in order to avoid short term costs/recruitment difficulties, especially where the service being split was very small scale and splitting the number of staff involved in its delivery between the “new” authorities

would have left each of the new authorities with insufficient capacity. In principle, it would also have been possible (but was not in evidence in the English restructuring) to have “shared” corporate services, and senior management teams.

Financing of New Bodies

Conclusion 12.

6.19 How the budgets of new local authorities are formed will depend on which restructuring option from Section 8 is chosen.

6.20 Once this decision has been taken, we would recommend:

Recommendation 13:

In the short term, that outline budgets are prepared for new local authorities, on the basis of the principle that “finance follows functions”

Recommendation 14:

Estimate the cost of transition from current to new models and the payback period.

Recommendation 15:

Through the PFM implementation, there should be a complete review of budget structure. The Ministry of Finance, whilst restructuring the budgets for Line Ministries, will need to take into consideration their new roles and responsibilities. In the medium-term a similar review of budget structures will take place for local authorities, which will reflect their new functions and structure. There should be much more emphasis of the costs of providing local services, as opposed to the costs of organisational units. (See Annex9 for an example budget structure that includes the detailed budget structure of an individual service).

Restructuring: Relative costs of Different Models and Transition Costs

6.21 This section offers some thoughts on how to compare the cost effectiveness of different models of local government structure, and on how to make estimates of the costs and savings of moving from an existing model to a different model (the transition costs).

Transition Costs and Savings of Local Government Restructuring

6.22 It is difficult to generalise about the costs or savings in moving to a different local government structure. This is because the costs and savings depend very much on local circumstances for each individual organisation. For example:

- three of the main cost drivers from restructuring are staff costs (redundancy and/or harmonisation of terms and conditions); and contract costs (termination and assignment); and ICT costs (bringing together legacy systems).
- one of the main savings from larger local government structures arises from economies of scale. But the extent to which these are realised depends in part on current levels of efficiency and on the managerial skill in driving costs out of the new organisations, as well as the efficiency targets which are set for the new organisations – either by each new body itself or by central government.
- costs also arise from project management of the changes (including any rebranding). Clearly these will be larger for a more complicated change.

6.23 So we cannot estimate the transition costs and savings simply by collecting information and feeding it into a standard spreadsheet model. Instead the costs need to be estimated and managed by managers on the ground. However, we can draw some conclusions over the relative costs which are likely under different options.

Cost Effectiveness of Different Models of Local Government Structure

6.24 Drawing on this, we can reach general conclusions about the cost effectiveness of different local government structures:

- larger local authorities offer the opportunity for economies of scale – both in service provision and in corporate (management) overheads.
- larger bodies have more intrinsic capacity. This is important because the role of local government is generally recognised as going beyond merely service delivery. Local authorities ought to have the responsibility to lead and represent their communities, to promote economic and social well-being, and to react to problems in a flexible and resilient manner, supporting local people. These qualities can only be found effectively in a larger organisation.
- two-tier structures are generally more expensive and less effective than single-tier structures.
- more complicated structures, involving duplication and multiple interfaces are generally more expensive and less effective.

6.25 Finally, there are also issues which are broadly neutral as far as restructuring is concerned. For example, local authorities will have different levels of reserves

and liabilities (e.g. debt). There may be concerns in specific authorities over servicing outstanding debt. Generally these concerns are eased (or at least are no worse) by merging the debt portfolios into a pool which is the responsibility of a larger authority. Of course, there may be different impacts on different groups of local taxpayers.

6.26 This framework for analysis is applied to the restructuring Options in Section 8.

7 Findings and Recommendations: Structure

7.1 This section discusses the two structural Options under consideration by the Cypriot government; Options 'A' and 'B'.

7.2 We assume throughout this section that services are best delivered by multi-purpose local democratic organisations which are directly accountable to local people.

7.3 We have therefore not placed any emphasis on single purpose vehicles, as signalled in our Terms of Reference. We have however discussed the merits of indirectly accountable clusters of local authorities.

7.4 The options for restructuring are assessed against the following criteria:

- whether they are likely to deliver sufficient scale and capacity to allow significant decentralisation of services and offer value for money in delivering services
- whether they will enhance local accountability and engagement with citizens
- the likely cost and practicality of a transition to the new structure, including the prospect of recovering front-end investment in restructuring within a few years.

7.5 Limited financial information is available - and usually at the level of organisational units rather than the level of services. Also, there is limited experience of organisational change and no information available on the costs of doing so, so we have not been able to arrive at estimates of the one-off costs of change and the on-going savings which result from different options; but we have tried to give an indication of relative levels here. It is clear, however, that moves to larger structures have delivered significant services improvements and cost savings across Europe.

7.6 We heard from a number of organisations about the need to preserve a sense of "local identity" by avoiding changes to existing local authorities. Quite apart from the imperatives outlined above, we believe that this argument is overplayed.

Conclusion 13.

Citizens across Europe derive a sense of local identity from their community and place (from families, friends, the geographical locations where they live and work) and not primarily through the means of local government structure. We also believe that citizens are primarily concerned with the quality and cost of local services, and not with the form of local government structure which provides these services.

7.7 Provision of services within a democratic framework does of course require community engagement and accountability. But this does not imply that the current structure is the best way forward.

7.8 It is worth noting, as previously mentioned, that local government reform is a package of recommendations that address functions, structure and financing of local government. Decisions on each will influence the others. This is perhaps

most important for local government structure, as the level of capacity developed as a result will directly enable or impede shifts in functions.

7.9 This principle has been observed in the recent Irish reforms, where it was noted that:

“The principle that “form follows function” requires that the structure of any system should have regard to its functions. However it would be a mistake to apply this principle in a static manner to local government. The functions and structure of local government are not likely to develop to their full potential unless its structures are made stronger and more resilient.”

Box 2: Lessons from Ireland²⁸

General Mechanisms for Community Engagement and Empowerment

7.10 Based on international experience, and under any of the restructuring options, there are a variety of general models for community engagement and empowerment, which help ensure that larger councils are visible in local areas and that citizens have control and influence over decisions. These include:

- elected representatives acting as community leaders. Representatives can act as advocates for their areas, or can help reconcile the viewpoints of different sections of the community on controversial matters. (Section 7 below proposes that ‘first tier’ representatives should perform this role.) They can consult and develop future plans for the area, help citizens access support and services from public bodies, and promote events and activities which help build communities. Political parties also need to make it easier for individuals to become involved and stand for office, especially those from less well represented groups
- improved access to information. This can range from newspapers, leaflets and websites, to more transparency on the local authority’s priorities, its use of resources and the way it takes decisions
- shop fronts for services in local areas. Services can reach out to local communities by establishing an office or premises where citizens can access support or information. These premises can be multi-purpose or “one-stop shops”. Other options include mobile provision, using vehicles
- mechanisms to transfer power and influence over decisions or resources. Examples include neighbourhood forums, perhaps led by local councillors; opportunities for local people to take responsibility for running community assets; and clear procedures for individuals and communities to make representations and petition local authorities to make their views known mechanisms to seek redress when things go wrong, such as clear complaints procedures.

²⁸*Putting People First Action Programme for Effective Local Government*, 2012, Department of the Environment, Community and Local Government, p. 46.

The Restructuring Options

7.11 During the gap between Missions 3 and 4, the experts developed five restructuring options for discussion, which were set out in the draft interim report (see Section 4). Based on discussions during Mission 4, the experts refined these to arrive at two principal options, named Options ‘A’ and ‘B’.

Option A

7.12 Option A can be thought of as being constructed from a pre-determined core, supplemented by various components. Each component is discussed below, leading to a final statement of Option A, as recommended by the experts.

Core:

7.13 A new ‘second tier’ of 5 local authorities, to be known as District Councils (DCs), whose boundaries will match those of existing District Offices. The second tier will take on the 15 specified services which it is agreed will transfer from central government (Line Ministries and District Offices) (see Section 6).

Components under Discussion:

7.14 Component 1: A directly elected [**DE**] second tier, or an indirectly elected [**IE**] second tier comprised of nominations from the elected representatives of other, ‘first tier’ local authorities.

Strengths	Weaknesses
<p>DE: clear accountability through direct elections to the body responsible for service delivery</p> <p>DE: stronger local government through more powerful elected representatives</p>	<p>IE: accountability which is only indirect and therefore weaker</p> <p>IE: risk of paralysis through bureaucratic nominated assembly</p>
Opportunities	Threats
<p>DE: delivering strategic outcomes for the district as a whole, through effective resolution of conflicting viewpoints</p> <p>DE: clear community leadership role led by directly elected representatives</p>	<p>IE: lobbying for local areas by indirectly elected representatives resulting in poor strategic outcomes for the area</p>

Table 1 Component 1

Conclusion 14.

A directly elected second tier would create clear accountability, stronger local government through more powerful elected representatives, and a more strategic approach to the district as a whole.

7.15 Component 2: transferring all [**All**] or some [**Some**] of services currently performed by Municipalities to the new second tier.

Strengths	Weaknesses
<p>All: clarity for citizen on where responsibility for service delivery lies</p>	<p>Some: dilution of expertise in service provision between District Councils and</p>

	Municipalities
Opportunities	Threats
All: greater economies of scale All: improved links between services delivered by the same organisation (i.e. DCs)	Some: risk of excessive costs through proliferation of responsible bodies Some: increase of amount of total LA budget to serve structure rather than services

Table 2 Component 2

Conclusion 15.

Transferring all services currently performed by Municipalities to the new District Councils would provide clarity to the citizen on where service responsibility lies, greater economies of scale, best use of resources, and improved links between services.

7.16 Component 3: transferring all [**All**] or some [**Some**] services currently performed by Local Communities to the new second tier.

Strengths	Weaknesses
All: clarity for citizen on where responsibility for service delivery lies All: delivery of local services by local authorities; District Offices' capacity transferred to local government level	Some: dilution of expertise in service provision between District Councils, District Offices and Local Communities Some: continuation of the urban-rural divide in access to quality services
Opportunities	Threats
All: greater economies of scale All: improved links between services delivered by the same organisation (i.e. DCs)	Some: risk of excessive costs through proliferation of responsible bodies Some: increase of amount of total LA budget to serve structure rather than services

Table 3 Component 3

Conclusion 16.

Transferring all services currently performed by Local Communities to the new District Councils would provide clarity to the citizen on where service responsibility lies, greater economies of scale, best use of resources, and improved links between services.

7.17 Component 4: transferring all [**All**] or no [**No**] services currently performed by District Offices to the new second tier.

Strengths	Weaknesses
All: delivery of local services by local authorities All: clear accountability through direct elections to the body responsible for service delivery (i.e. DCs)	No: dilution of expertise in service provision between District Councils and District Offices

All: improved links between services delivered by same organisation (i.e. DCs)	
Opportunities	Threats
All: DOs focus on their role as regional offices of central government	

Table 4 Component 4

Conclusion 17.

Transferring all local government services currently performed by District Offices to the new District Councils would provide clarity to the citizen on where service responsibility lies, greater economies of scale, best use of resources, and improved links between services. It would allow District Offices to focus on their role as regional offices of central government.

7.18 Component 5: establishing an extensive community engagement and empowerment [CE] infrastructure or not [Not]. Component 5 establishes the principle; Component 6 considers how this is achieved, namely through ‘first tier’ elected representatives.

Strengths	Weaknesses
CE: helps ensure District Councils are visible in local areas CE: helps ensure that citizens can influence decisions and ensures flow of information from District Councils to citizens and vice versa CE: reduced risk of larger authorities seeming remote or unresponsive	
Opportunities	Threats
CE: District Council elected representatives are more effective in their role	CE: clear focus is needed to ensure that community engagement and empowerment is effective and offers value for money

Table 5 Component 5

Conclusion 18.

Establishing an extensive community engagement and empowerment infrastructure would reduce the risk of new District Councils seeming remote or unresponsive.

7.19 Component 6: whether the ‘first tier’ of community engagement and empowerment should feature directly elected [DE] representatives (e.g. mayors and municipal councillors, community presidents and community councillors) or not [Not].

Strengths	Weaknesses
<p>DE: citizens have greater proximity to 'first tier' representatives who can facilitate more effective community engagement and empowerment</p> <p>Not: simpler process to manage; community leadership is by elected representatives at District Council level</p>	<p>DE: series of elected representatives with no decision-making power or resources but encouragement to lobby irresponsibly for local areas</p> <p>DE: increase of amount of total LA budget to serve structure rather than services</p>
Opportunities	Threats
<p>DE: 'first tier' elected representatives can facilitate effective communication between District Councils and citizens, and promote local voluntary action</p>	<p>DE: low quality representatives with better candidates seeking election to District Councils</p> <p>DE: competing democratic mandates between District Council representatives and 'first tier' representatives</p> <p>DE: clear focus is needed to ensure that the overall approach to community engagement and empowerment (e.g. the number of 'first tier' elected representatives and their cost, and mechanisms deployed) is effective and offers value for money</p>

Table 6 Component 6

Conclusion 19.

The first tier of community engagement and empowerment should be clearly led by directly elected representatives at the level of District Councils and not by a continuing role for representatives of Municipalities and/or Local Communities. However, effective community engagement and empowerment can be facilitated by directly elected representatives at the 'first-tier' level (e.g. mayors and municipal councillors, community presidents and community councillors).

7.20 If the Government of Cyprus wishes to establish directly elected representatives in the 'first tier', it will be important to focus on exactly how this is achieved, to ensure that the benefits of doing so outweigh the likely costs. Issues which arise include ensuring that:

- the role is limited to community representation, acting in support of District Council representatives, and does not impinge negatively on the role of the latter
- there is a clear distinction between the role of District Councils in delivering services, and the role of 'first tier' representatives in representing local views and building their communities
- the overall approach to community engagement and empowerment (e.g. the number of 'first tier' elected representatives and their cost, and mechanisms deployed) is effective and offers value for money.

7.21 The remainder of this report assumes these conditions will be met and ‘first tier’ elected representatives will proceed.

Recommendation 16:

Option A should be formulated as follows:

A new directly elected ‘second tier’ of 5 local authorities, to be known as District Councils (DCs), whose boundaries will match those of existing District Offices. The second tier will take on all services currently exercised by Municipalities and Local Communities and local government services currently exercised by District Offices, together with the 15 specified services which it is agreed will transfer from central government. The second tier will be supported by a ‘first tier’ of directly elected community representatives (e.g. mayors and municipal councillors, community presidents and community councillors), ensuring extensive community engagement and empowerment. This ‘first-tier’ will be clearly led by elected representatives at the District Council level.

Option B

7.22 Option B involves the restructuring of Municipalities and Local Communities to form around 10 single tier authorities of roughly equal size in terms of population. The new authorities will take on the 15 specified functions transferred from central government (Line Ministries and District Offices) and local government functions currently exercised by District Offices.

Discussion of the Options

7.23 Options A and B are now compared below. The table below is a SWOT analysis of these Options. In its analysis of ‘Option A’ it refers exclusively to the experts’ recommended version, as set out in Recommendation 16, with all the recommended components incorporated.

7.24 The key differences between the two options, which are reflected in the analysis below, are that Option A is tied to district boundaries, which will make implementation easier; the extensive first tier community engagement and empowerment infrastructure which is envisaged for Option A; and the lower number of authorities in Option A.

SWOT Analysis – Options A and B

Name	Description	Strengths	Weaknesses	Opportunities	Threats
Option A	5 additional 'second tier' authorities with community engagement and empowerment (as per the experts Recommendation 16 above)	Delivers vision for local government. Universal coverage, between rural and urban areas. Delivers significant capacity and economies of scale. Delivery of local services by local authorities. Built around existing boundaries. Clear accountability. One-off costs are offset by ongoing savings. Totals 5 local authorities for decision making and service delivery.	Risks of size and remoteness from citizen. Challenge of organising community engagement and empowerment.	District Offices' capacity transferred to local government level. Substantial improvements in governance and accountability. Greater return on taxation for the citizen.	Municipalities and District Offices work could be disrupted during re-allocation of functions.

<p>Option B</p>	<p>Merging of Municipalities and Local Communities to give a total of, for example, around 10 new local authorities</p>	<p>Delivers vision for LG. Universal coverage, with equal access to services. Delivers significant capacity and economies of scale. Delivery of local services by local authorities. Clear accountability. One-off costs are offset by ongoing savings. Totals around 10 local authorities.</p>	<p>Requires a boundary review. Creating functioning bodies from large number of small Municipalities and Local Communities in some parts of the country.</p>	<p>District Offices' capacity transferred to local government level. Substantial improvements in governance and accountability. Greater return on taxation for the citizen.</p>	<p>Problems or delays with agreeing new structural boundaries. Municipalities and District Offices work could be disrupted during re-allocation of functions.</p>
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Figure 14 SWOT Analysis of Restructuring Options

Cost Effectiveness of Different Models of Local Government Structure

7.25 The table below is based on the framework for analysis in Section 7. Applying the framework for analysis, the experts found:

Costs/Savings and Cost-Effectiveness of Restructuring –		
Options A & B		
Criterion	Option A	Option B
<i>main cost drivers (staff, contract, ITC)</i>	lower	medium
<i>project management costs</i>	lower	medium
<i>opportunity for economies of scale</i>	offers opportunities	offers opportunities
<i>intrinsic capacity</i>	offers optimum opportunities	offers opportunities
<i>two-tier (elected and delivery) penalty</i>	absent	absent
<i>degree of structural complexity</i>	low	low

Figure 15 Discussion of Costs/Savings and Cost-Effectiveness of Restructuring (Options A and B)

Conclusions

7.26 Overall, the experts have been impressed with the level of shared ambition for Cypriot local government, but feel strongly that:

Conclusion 20.

- **the current structure is not fit-for-purpose to deliver this**
- **radical change is needed to ensure we capitalise fully on the opportunity for change and meet the challenges on services and efficiency that have been identified**

7.27 For this reasons, and based on the analysis above, we favour **Option A** as the preferred restructuring Options, with the components of Recommendation 16 incorporated.

Recommendation 17:

Option A should be implemented, as described in Recommendation 16, as the best opportunity to provide modern, uniform and efficient service provision. Alternatively, if preferred, Option B would present a reasonable way forward.

The chosen Option should be tested through a process of public consultation.

8 Next Steps

Timeline

8.1 The existing timeline sets the context for the implementation of this report. Key dates are set out below.

- By the **30th June 2014** the Government of Cyprus will need to:
 - consider the recommendations in the report including options for restructuring and for the decentralisation of the delivery of 15 specific services
 - agree on a package of local government reforms, including changes to central government and local government functions, finance and structure
 - agree a roadmap for implementing these, in line with related public administration reforms, from July 2014 to April 2017 (see local government elections below). The NSGI will work together with the GoC to draft the road map. This will be taken forward in a consultative way, and will need to be consistent with PFM and HRM Reforms implementation.

The Umbrella Law; Municipality piloting

8.2 2015 budget cycle: voluntary piloting by Nicosia Municipality of implementation of the Umbrella Law. Mandatory implementation by all local authorities will follow in the 2016 budget cycle. Decisions on the structure of the new local authorities need to be made as soon as possible so that compliance with the Umbrella Law is not delayed and capacity is built in the appropriate way and at the appropriate level of local government.

Local Government Elections

8.3 December 2016: It is envisaged that any of the options proposed on restructuring of local government should be implemented following the 2016 local government elections. To ease the transition between the current structure and the future structure of local government, the Government of Cyprus could arrange the upcoming elections as “shadow elections” for the new local government bodies. This would entail the existing local government authorities remaining in power till the new bodies and their representatives became operational and able to take up office, without disrupting the delivery of services e.g. by April 2017.

Action Plan

8.4 Our proposals concerning local government reform are a package of interlinking recommendations. As previously stated, the potential change rests in large measure on which restructuring option is chosen by the government. We therefore suggest the following key actions on restructuring:

- a) conclude and seek to build consensus around one preferred option, so that this can be further explored

- b) develop a costing model and populate it with data to provide information on the preferred option
- c) explore in more depth the impact of the chosen option on service delivery and democratic representation.

8.5 In order to prepare for implementation of the preferred option, the immediate Action Plan from April to June 2014, would encompass the following

8.6 Functions:

- agree the list of services to be assigned to local government
- calculate the number of people working in central government in the roles/responsibilities that will be transferred to local government (both in District Offices and Line Ministries)
- calculate the money spent by central government in exercising the roles/responsibilities that will be transferred to local government (both in District Offices and Line Ministries)
- based on this, agree a “new burdens” procedure to manage the transfer process.

8.7 Finance:

- calculate the money that will be transferred to the new local authorities from District Officers, Line Ministries, Municipalities and Local Communities
- draw up budgets for the new local authorities
- estimate the cost of transition from current to new models and the payback period

8.8 Structure:

- (if needed) initial consideration of the appointment of an independent body to draw boundaries if boundary changes are needed e.g. to make local authorities more equal in size
- the future role of District Offices
- the new representative role of Municipalities, and when and how this will be communicated (under one variant of Option A).
- formulate options to deliver effective grassroots community engagement and empowerment, to ensure local authorities are not perceived as remote and undemocratic.

8.9 As soon as a decision is taken on the restructuring option and more clarity about function and finance, the Ministry of Interior will need to draft a clear communication strategy and consultation plan with the key stakeholders and the wider public. We envisage implementation of the Communication Strategy and Consultation Plan to start around the beginning of June 2014.

8.10 The next stage (starting latest from July 2014) will be to implement the agreed roadmap for moving towards the envisaged local government reform by April 2017. This may include:

- consultation and agreement about boundaries by an independent commission (if needed)
- draw up legislation to enable the new local authorities to function
- agree on a funding model and budget structure for the new local authorities
- review function and structure of MoI and District Offices to meet their new mandate
- review of contractual obligations by MoI, line ministries and local government for those services that will be transferred and manage transfer
- review staffing by MoI, line ministries and local government for those staff who will be transferred and manage transfer
- transfer/build capacity of local government to implement their new functions
- prepare and implement a communication strategy regarding the new function, finance and structure of local government.

8.11 Change is always challenging. Cyprus is experiencing change in many fields at the same time through a process that can only be described as transformational in the way government business is conducted and in the relationship between citizens and the government. Reforming local government is difficult, emotive and touches the lives and interests of all citizens. It is therefore important that changes are led by the centre of government, are well sequenced, are coherent and taken through to completion because only then the citizens will enjoy the benefits of a strong and citizen-focused local government.

9 Appendix

Individual Service Recommendations

As mentioned in Section 5, the services have been considered at this stage, in a way that is largely independent of local government structure, in order to make proposals which remain valid, irrespective of which structural option is chosen (i.e. Option A – 5 District Councils, or Option B – around 10 new local authorities). References to Municipalities and Local Communities generally demonstrate the potential to decentralise responsibility in advance of structural change, if there is advantage in doing so.

9.1 Community Infrastructure Planning - Theatres, Museums

Description

The Department for Culture in the MoE gives subsidies to Municipalities and Communities for cultural projects through an infrastructure scheme. The Department works closely with local authorities who want to develop their local cultural infrastructure and they can obtain up to 30% of total cost up to a maximum of 0.5 million Euros. The Ministry of Education makes decisions on applications for funding relating to the arts and amphitheatre projects.

There is an annual programme of subsidies for local authorities. Providing this subsidy can be problematic, particularly relating to the quality and standard of works being funded. Problems relate to both Communities and Municipalities who invariably request funds in excess of what can actually be afforded.

There is currently a duplication of facilities and services within close proximity of each other, and substantial debt has been amassed by both Municipalities and Communities to fund cultural infrastructure.

Broad Criteria

- there is no overall strategic cultural plan for Cyprus
- substantial debt has been amassed
- co-ordination of facilities is difficult and disjointed and leads to over-provision of similar facilities
- ongoing revenue costs are not factored into local authority budgets more centralised control needs to be established a) for better overview of projects, b) in order to benefit from economies of scale by providing a wider range of cultural infrastructure over a greater geographical area, and c) tighter budget control.

Proposal

We propose to centralise Community Infrastructure Planning within the Ministry of Education & Culture (MoEC). Large infrastructure projects of national importance should be part of a strategy and policy framework determined at central level in cooperation with local government. Smaller projects can continue to be financed and implemented locally within available budgets, or sponsored locally.

The review of the Ministry of Education completed by the WB recommends establishing Cultural Services as a separate Directorate reporting to the Minister or establishing a Deputy Minister for Culture

Transition

We recommend an immediate transferral of responsibility to the dedicated Directorate for Culture, to draw up a national strategy, related policies and the appropriate level of implementation of infrastructure projects.

9.2 Community Infrastructure – Sport Facilities

Description

The Cyprus Sports Organisation is a semi–autonomous government organisation primarily responsible for the programming of sporting infrastructure as well as the provision of specialist sport development programmes. It provides support for non-professional sporting clubs and offers help to local authorities in support of funding bids and specialist knowledge and expertise.

The provision of sport facilities lies within the powers of Municipalities and Local Communities. Most local authorities aspire to provide their own sporting facilities, leading to over provision and duplication of services. There is little evidence of a coherent strategy for joined-up provision of sporting infrastructure throughout the country. However, there are approximately 10 examples of joint use agreements where School Boards cooperate with local authorities for public use of sports facilities. Whilst improvements have been made through the years, there are significant opportunities to further improve the level of use of school facilities by Cyprus sports clubs.

Broad criteria

- there is no cohesive strategy for joined-up provision of sporting infrastructure and provision
- there is over-provision and duplication
- associated levels of debt are unsustainable
- as with cultural infrastructure, more centralised control needs to be established to secure a) a better overview of projects and facilities, b) economies of scale, c) improvement in the quality and quantity of sporting facilities over wider geographical areas, and d) tighter budget control.

Proposal

The Ministry of Education should develop a national sports strategy, to define priorities, key facilities and the coverage of sporting facilities, which will be implemented by the Cyprus Sports Organisation.

Local authorities will be expected to collaborate in preparing proposals for inclusion within the National Strategy. Delivery of these proposals will not generally fall to local authorities.

9.3 Environmental Impact Assessment

The Department of Environment currently carries out assessments of small hotels, petrol stations, small streets, city parks, schools, pedestrian streets and office buildings. Typically this is a task carried out by local authorities in most European countries.

The Department also inspects all installations in industrial areas, and manages a large volume of complaints at national level.

Broad Criteria

- the broad principle here should be to empower local authorities to assess these functions in their areas
- furthermore, receiving and dealing with complaints may not be appropriate at national level, especially concerning local government issues
- transferring this to local authorities makes local government more accountable to communities and can be used as a tool to strive for improvement
- it is important for Environmental Impact Assessments to be aligned with Planning Permit controls.

Proposal

In line with our suggestion to transfer responsibility for issuing planning and building permits to local government, we propose empowering local authorities to make initial environmental assessments for applications regarding small projects that are outside the scope of the Environmental Impact Assessment (EIA) legislation.

This will include the assessment of small hotels, petrol stations, small streets, city parks, schools, pedestrian streets and office buildings. They would consult with the Department of Environment where necessary.

Furthermore, the Department will prepare management plans for all Natural Management Sites within the next two years. It will be necessary to involve local authorities in this process in terms of management and monitoring.

Transition

With training from the Department of Environment, responsibility will be handed over to local authorities as soon as sufficient capacity is established.

Hygiene Inspections

The Department of Medical and Public Health Services of the Ministry of Health (MoH) is responsible for the control of food safety and environmental health, in cooperation with other governmental services. It is responsible for harmonising the national legislation with the corresponding European legislation and issues instructions, programmes and guidelines for the implementation of the European Union legislation and policy regarding food safety and hygiene.

Due to the importance of the function performed, the Department for Medical and Public Health Services have established a National Strategy for Hygiene Inspections. This incorporates a comprehensive Monitoring System requiring local government to implement the controls in an effective, consistent and harmonised way, based on national standards, and reports their activities consistently to central government.

Environmental Health responsibilities are separated from food control responsibilities and involve the following routine activities: education of the public on public health issues; monitoring and control of drinking water for human consumption; coordination of anti-malarial work; monitoring and control of the quality of bathing water of public swimming pools and coastal water; control of the production and marketing of detergents; investigation of communicable diseases; control of smoking and smoking products; and inspection of the hygienic conditions of public buildings (schools, day care centres, etc).

Most of the Municipalities largely carry out the Environmental Health activities specific to drinking water and bathing water referred to above within their borders, in combination with other environmental health activities for which they are responsible, such as the collection of household waste; the control of animals and the conditions in which they are kept, and the handling of complaints for nuisance caused by factors related to the aforementioned.

In addition, nine of the larger Municipalities currently perform food safety and hygiene controls in cooperation with the Department for Medical and Public Health Services. These are Nicosia, Limassol, Larnaka, Strovolos, Lakatamia, Engomi, Yermasoyia, Paralimni and AyiosAthanasios. Their inspections are limited to restaurants, cafes, taverns, night clubs/discos/cabarets/bars, pizzerias, takeaways, and canteens at sport establishments, temporary stations selling food, mobile canteens selling food, vending machines, kiosks and mini markets.

Pafos Municipality also has authority to perform food hygiene controls. However, due to poor performance in carrying out the functions, its powers have been restricted. A decision taken in 2012 excludes Paphos from undertaking inspections for restaurants; pizzerias; cafes; taverns and mini-markets.

Broad Criteria

It is crucial that this function is performed correctly, as inadequate hygiene inspections can have serious consequences on public health, industry, consumers' interests and tourism. If controls or the reporting of controls do not meet legislative standards, this could be picked up by the European Commission audit, resulting in infringement procedures against Cyprus, which may lead to a fine and reputational damage.

Furthermore there is some dissatisfaction with the quality of food hygiene controls provided by some of the nine authorised Municipalities.

Finally co-ordination of inspections of food premises could be improved between Food Hygiene and other services.

Proposal

Technical and specialist tasks (e.g. laboratory work) shall remain at central government level, as this will be more cost-efficient.

Nine of the large Municipalities already perform Hygiene Inspections. Over time we envisage the complete transfer of the same type of hygiene inspections to all local authorities, but only once sufficient capacity to perform the task has been established.

In addition, over time local authorities could take on the inspection of different types of premises, once capacity is in place, and in agreement with the Ministry of Health.

Transition

In the early stages of transition, responsibility and implementation of the inspections will remain the responsibility of the 9 large Municipalities already performing this task. In the longer term, these inspections will be taken on by further local authorities, once sufficient capacity has been established.

9.4 Landscaping of Government Buildings

Landscaping design and maintenance of Government Buildings is the responsibility of the Public Works Department, who are responsible for the 'Provision and Management of Central Government Buildings and Associated Infrastructure'. The maintenance is currently outsourced either to the Department of Forests or the private sector through long term 'Design, Build and Maintenance Contracts' (PPP Projects).

Broad Criteria

This is a minor task currently involving two central government departments, thereby creating disproportionate bureaucracy.

Proposal

We propose the responsibility over government buildings should remain with the Public Works Department, with technical support provided by the Department of Forests through the transitional period or when so required. The Public Works Department could then contract out the work to local authorities or private companies.

Transition

The experts recommend the above proposal be implemented immediately.

9.5 Landscaping of Roads

(central reserve/median, roundabouts and roadside planting)

Landscaping, design and implementation of landscaping plans and maintenance of green spaces alongside roads is the responsibility of:

- local authorities, in the case of roads within the Municipality limits
- village authorities in the case of villages, and
- the Department of Forestry in the case of all main highways.

In addition to the main highways, the Forestry Department currently performs maintenance tasks on many of the urban and rural roads.

Broad Criteria

After the initial planting, the maintenance of these areas is a time-consuming task that currently diverts Forestry resources away from the Department's other responsibilities.

These are tasks that local authorities could take on relatively quickly.

Proposal

We propose to transfer the design and maintenance of road landscaping of rural and urban roads under their jurisdiction, to local authorities.

Design and Maintenance (in respect of landscaping) of the main highways will remain the responsibility of the Forestry Department.

Transition

It may be possible to transfer this function to Municipalities, in advance of the implementation of local government restructuring.

9.6 Parks

The 'Parks' function covers two distinct areas: land use and designation. If an area is declared forest land, it falls under the jurisdiction of the Department of Forests.

The Forestry Department undertakes work in the national parks and is responsible for maintaining green areas, managing the forest, provision of recreation to the public, and maintenance of the flora and fauna of the park. It also manages any environmental issues, and enforces regulations that the public should follow within the national parks. In addition it works towards expanding the size of forests

Municipal and Community parks are not the responsibility of the Department of Forests. Occasionally the Department provides consultation on technical options when requested.

Broad Criteria

National Parks are usually managed either by central government, or as an entity in their own right.

There is consensus that the Department of Forests currently performs this task to a high standard.

Proposal

It is our proposal that national parks should remain under the jurisdiction of the Department of Forests, and that they continue to provide support on technical matters in Municipal and Community parks when so requested.

Transition

In this context, no transition is required.

9.7 Public Order

The Police Department in the Ministry of Justice and Public Order is currently responsible for the regulation of over 200 minor 'public order and traffic' offences that are regulated through out of Court fines of up to €85. These offences take up considerable police time and are typically the responsibility of local authorities in other European countries.

The responsibilities can be summarised as the regulation of smoking controls, sale of intoxicating liquors, law on canines, public road law, the protection and welfare of animals, the street and house collection law, and the protection of the foreshore.

As regards offences related to the working hours of recreation centres and their amplified sound licenses, the suggestion is that this is included in the Law Regulating Offences out of Court.

Broad Criteria:

These are minor penalties that can be enforced more efficiently and effectively by local authorities.

This would also save Police time, empower local authorities and fit with the Police Department objectives of:

Making the community part of the process of continuous improvement and development of well-being of society, with mutual cooperation and by sharing responsibilities.

Proposal:

We endorse the Ministry of Justice and Public Order's proposal to amend the relevant legislation to empower traffic wardens or authorised officials of local authorities to take on the regulation of these offences out of Court. This will allow the Police Department to focus its resources on more serious crime, whilst local authorities regulate smaller offences that consume time and affect many people, thus strengthening links between local authorities and their communities and citizens.

All local authorities need to agree to take on these responsibilities, to ensure consistency of law enforcement nationwide. The Police will ultimately reserve all rights and responsibilities.

Transition:

The Police Department is willing to train and supervise all traffic wardens and employees of local authorities over a period of two years. The training will be arranged around timetabling, the number of people to be trained and the required expenses which will be paid to the Police. The transfer of powers will be carried out

gradually following completion of the training period, readiness to take on responsibilities, and the amendment of legislation. For this to take place local authorities must agree to the above powers and, for the sake of uniformity and consistency, commit to addressing the same offences.

9.8 Roads

The Cypriot road system can be classified as follows:

Urban areas -

- the main road network - these are the responsibility of the Public Works Department in central government. Planning for these is undertaken in cooperation with the Planning and Housing Department in the Ministry of Interior
- the secondary and local network - these are the responsibility of Municipalities

Rural areas -

- the main road network - these are the responsibility of the Public Works Department in central government
- the secondary and local network- these are the responsibility of District Offices in central government (for local roads this is undertaken in cooperation with villages/Local Communities)

Cleaning

Cleaning of roads within built-up areas is the responsibility of local government. In rural areas (including the motorway road network) cleaning is carried out according to the jurisdiction of the road (by the Public Works Department or District Office).

Construction

Although construction and maintenance of tertiary (and some secondary) roads is the responsibility of local government, in practice in rural areas these duties are performed by the central government through the District Offices.

Broad Criteria

The management of the road network in Cyprus illustrates the significant cost of fragmentation of local government. European trends consistently keep the national grid under central government control and maintenance. However responsibility over secondary and tertiary roads is predominantly allocated to local government, with regard to both cleaning and maintenance.

Proposal

We propose the transfer of the remaining cleaning and maintenance responsibilities for secondary and local networks, currently performed by central government to local government.

We envisage a transfer of responsibility for road planning, design and construction from central government to local government for tertiary and secondary roads in rural areas

We also envisage an equal participation in the decision making process, between the Department of Town Planning and Housing, the Public Works Department and local government, on the planning and design of secondary and tertiary roads.

Transition

There is a need to ensure that all new local authorities have the capacity and support to perform these new responsibilities. Once this has been established, responsibilities will be transferred.

9.9 School Boards

Description

School Boards are the owners or custodians of the land on which schools are constructed. They act as an intermediary between the Ministry of Education and Culture (MoEC) and the schools. They carry out the administrative tasks of recruiting and managing teacher assistants to help with special needs children and school support staff (cleaners, guards etc.); purchasing and delivering stationery; distributing learning materials from school stores; contracting for minor repairs to schools; and liaising with contractors and/or the appropriate department for larger repairs and school maintenance.

The membership of School Boards is a combination of elected officials and appointees by the local Municipality. There are 30 School Boards in the Municipalities and 180 in the Communities. Each School Board manages a number of primary and secondary schools, as assigned by the Council of Ministers.

Broad Criteria

- There are currently too many School Boards
- There is a lack of school autonomy for day-to-day management issues.
- There are economic benefits to be derived from the consolidation of School Boards, due to economies of scale. Each School Board will be responsible for a considerable number of schools (while today many Boards are responsible for fewer than 5 schools and some for a single school in a village with fewer than 50 students and 2 teachers).
- Specific authority for everyday operations should be delegated to schools. Schools governing boards already have budgets for dealing with minor issues. These budgets could be increased to reflect the extra responsibilities to be delegated (i.e. small repairs, minor equipment purchase, etc). Decisions on purchasing of products and services should not be delegated, since School Boards can benefit from economies of scale. A single school could not achieve the same preferable terms as a School Board negotiating on behalf of 80 schools.

Proposal

We propose to consolidate the number of school boards by aligning them with the new local government structure, i.e. one per new local authority. School Boards will retain procurement powers for larger expenditure items (such as standardised IT equipment and supplies). School Boards will be responsible for a larger number of schools in order to benefit from economies of scale.

The governing boards of schools will be strengthened with regard to day-to-day management of assets and services. School Boards should set up framework

agreements, to include the employment of staff such as cleaners, within which individual schools can commission goods and services e.g. minor repairs and cleaning and support staff. Thus autonomy for day-to-day decisions and accountability can be delegated to schools, while School Boards retain overall responsibility for large-scale procurement of goods and services.

Transition

We support the School Boards' proposal to reduce their membership numbers down from 11 to 7; however these 7 will need to include representatives from local authorities. In addition, the number of Boards should be reduced immediately to 1 for each Municipality (numbering 30 in total), and 5 to cover all the Communities. Thus the number of School Boards in Cyprus would be reduced from the current 210 to 35. Framework agreements can be drafted to delegate more management powers for services and assets to schools and if implemented successfully these will be extended to all schools over time. We see this as a useful interim step towards alignment with the future local government structure, i.e. one per Local authority.

9.10 Town Planning

The functions and responsibility for the Town Planning Division are:-

- 1) Planning Studies: (a) Local Plans and (b) Policy Statements i.e. Countryside Plans, that describe the different kinds of development in several areas (agricultural, tourist, commercial, housing etc.)
- 2) Planning Control: the issuing of planning and building permits
- 3) Planning Schemes: design of roads etc.

At present local authorities play an important role in the preparation of Development Plans but have very little role in Planning Control.

With regard to (2) Planning Control:

Planning permits are issued by

- 10 Planning Authorities (Director of Town Planning Department, five town Planning District Offices and four Municipalities - Limassol, Larnaka, Pafos and Nicosia)
- Council of Ministers.

Building permits are issued by

- 5 District Offices
- 30 Municipalities
- 1 Community Council.

Broad Criteria

With regard to strategic planning at a national level, it is most effective for planning powers to remain at central level. This then sets the context for local government planning.

At present there is little local government involvement in the planning process, since local authorities mainly act as consultants to the Planning Board. It is been understood that at present, the Planning Board consists of 13 members:

- 4 members appointed upon recommendation of the Minister of Interior
- The President of the Union of Municipalities
- The President of the Union of Communities
- The President of the Technical Chamber of Cyprus
- The Permanent Secretaries of 4 Ministries
- The Permanent Secretary of the Directorate General for European Programmes, Coordination and Development (ex Planning Bureau)
- The Director of the Department of Town Planning and Housing

- The Board's President is appointed by the Council of Ministers.

Local authorities have voiced their opinion that this body needs to be politically accountable, e.g. comprised of a board that will include more elected representatives.

Proposal

We support the principle behind the Municipalities' suggestion to create a single Town Planning Authority in each province²⁹. The principle of creating a wider single authority for planning is echoed in the Ministry of Interior's recommendation of a single body for each district. Specifically we support the move towards a larger scale body. However democratic accountability would need to be examined, and the structure of such a body would depend on which restructuring option is chosen for local government overall.

- a) The setting of policy and planning schemes shall remain a central government role. The issuing of planning permits shall be gradually transferred to local government level, with the exception of cases that relate to "national interest" e.g. casinos, golf courses etc (these exceptions should be listed by the Department of Town Planning and Housing).
- b) The composition of the Planning Board can also change and this can include more elected representatives, whilst the majority of its members shall (as now) come from central government.

Transition

These responsibilities will be transferred to the new local authorities once sufficient capacity is established to carry out planning functions.

²⁹In theory these would assume the responsibilities and powers of the Municipalities, the District Administration and the District Office of the Department of Town Planning and Housing for the grant of planning and building permits for the province as a whole.

9.11 Traffic Management

Several Municipalities and Community Councils currently have responsibility for Traffic Regulation and enforcement, but not all local authorities apply this consistently. Where local authorities do not perform this task, the Police regulate traffic offences. There are additional traffic offences that are not included in Traffic Regulations, which the Ministry of Justice and Public Order proposes to transfer to Municipalities and Community Councils.

Broad Criteria

- The enforcement of Traffic Regulations Law by Municipalities and Community Councils nationwide is currently inconsistent. Assessment of the quality of service provided is therefore difficult.
- Traffic Regulations constitute minor offences and can be handled by local authorities.

Proposal:

We support the Ministry of Justice and Public Order's suggestion of the adoption of the standard 30 Traffic Offences by all local authorities. This will create a pattern of consistent law enforcement nationwide, relieve the Police Department of this duty and make it easier to assess the performance of authorities and promote further improvement.

Transition:

At present, in order to acquire authority for the above, Municipalities and Community Councils must apply to the Chief of Police, and have their traffic wardens given that authority by virtue of Article 88 (2) (h) of the Ms Law (L. 111/1985) or Article 84 (2) (h), of the Cs Law (L.86 (I)/1999).

The Police Department is willing to train and supervise all traffic wardens and employees of local authorities over a period of two years. The training will be arranged around timetabling, the number of people to be trained and the required expenses which will be paid to the Police. The transfer of powers will be carried out gradually following completion of the training period, readiness to take on responsibilities, and the amendment of legislation. At the same time a performance monitoring system (by central Police) will be introduced.

Speed limit management will remain the responsibility of central Police.

Further discussions can take place regarding offences related to helmets and seatbelts, though to execute these tasks: a) special equipment will be needed (for on the spot fines and points) and b) the Commissioner of Personal Data must allow local authorities to have access to citizens' personal data.

9.12 Transport

Public transport is the responsibility of the Road Transport Department, in the Ministry of Communication and Works. The Public Works Department acts as a consultant to the Road Transport Department in drawing up public transport plans.

A transport master plan has been prepared by the PWD for the Nicosia urban area.

Broad Criteria

Transport links on a national scale are a central government responsibility, but local authorities should be able to respond to local transport needs.

Due to the relatively small size of local authorities, transport links cannot be considered for each Municipality or Local Community individually but should be planned, contracted and managed on a greater scale.

Proposal

Overall we support maintaining the current transport structure; however we propose to explore ways of incorporating local authority needs more closely into transport planning. Master plans should be prepared for all new Local authorities. These will be instrumental in supporting this shift in approach.

Transition

There is a need to ensure that all Local authorities have the capacity and support to prepare transport master plans.

9.13 Waste Management and Pollution Control

This Section is consistent with the December 2013 draft of the MANRE Report available at submission of this report, and therefore has followed its structure. The MANRE report provides more in depth description and analysis of the two services. The NSGI team concurs with the preliminary recommendations of the draft World Bank report.

9.14 Waste Management

Waste is collected by local government and disposed of by central government. Overall this service is delivered well by local government, although this service is sometimes provided by the Ministry of Interior or Department of Environment when local authorities do not perform this task.

The service needs strengthening with regard to integrated management techniques or innovative technology solutions as these are currently lacking.

EU obligations will also require further development around separate collection measures, and thus new legal obligations will be put in place. The Department of Environment is expected to provide appropriate opportunities and funding within the funding period 2014-2020.

Broad Criteria

- The service needs to be improved so that local government handles all waste collection.
- It is also necessary for local government to adapt to EU requirements, and as such further capacity will need to be developed.

Proposal

We concur with the Department of Environment's proposals to reaffirm and further develop local government responsibilities for waste management. More specifically by the end of 2014:

- Local government can increase its involvement in the process of developing waste management strategies
- The present legislation (Waste Law - 185(I)/2011) can be used for local authorities to appoint inspectors for:
 - Small producers/owners of waste (supermarkets, commercial enterprises, garages, petrol stations etc)
 - Small product producers that under legislation carry the producer responsibility (that is, to provide the public with the proper infrastructure so that it can return their products once these become waste and to manage this waste in the proper manner)
- Current legislation (Waste Law - 185(I)/2011) can be changed so that local government can issue permits for the collection of non-hazardous waste

- New legislation can be developed under which certain obligations and targets to meet EU legislation be transferred from the government to local government (individually or collectively e.g. in clusters). For example, the EU require that by 2015, separate collection measures should be established for paper, plastic, glass and metal and by 2020 the recycling/reuse of paper, plastic, glass and metal from household or similar sources should increase to 50%. Through this legislation, local authorities (either individually or in clusters) will need to have trained and dedicated personnel, have a waste management programme that delivers the obligations of the legislation, have set actions and a timetable to achieve these, and report each year to the Ministry of Environment, with inspections by the Ministry.

Consideration should also be given to transferring responsibility to local authorities for the inspection of small and medium scale installations in industrial areas.

In addition, local government responsibilities will be widened to include issuing permits for the collection of non-hazardous waste, and increasing their involvement in the process of developing waste management strategies.

- The Public Works Department will also transfer the responsibility for issuing Certificates of Competence for petroleum product storage areas to local government. It may be possible to transfer this function to Municipalities, in advance of implementation of local government restructuring.

9.15 Pollution Control

Local government's responsibilities for pollution control will also be broadened. Inspectors will be appointed for the controls and inspections that relate mainly to implementation of articles 15 and 24 of the Waste Law, articles 9, 14 and 15 of the Packaging Waste Law, articles 6 and 8 of the Water Pollution Control Law, as well as certain Regulations and Ministerial Decrees issued under the three Laws. Inspection of Compliance with Waste Management Permits for Collection and Transport of Waste could also be included.

Proposal

Training will be provided by the Department of Environment to provide knowledge and tools. It will also be used to understand local government non-compliance, and communicate the need to plan ahead with confidence. It has been noted that for pollution control, that at present only the Municipalities can take on the above mentioned additional responsibilities for which training is needed.

Financial aid will be needed to secure adequate infrastructure, as well as support from the Department of Environment over a 5 year period (2014-2019). For example, amongst other things, it has to be decided if the income from fines will go to local authorities or central government.

Water Boards & Sewage Boards

With regard to water and sewage provision, a variety of models are already in place across the island. Responsibility for this falls to water boards and sewage boards in 3 main cities (Nicosia, Limassol and Larnaka); to local authorities (both Municipalities and Communities) in other areas; and to central government (Water Development Department) in others.

Broad Criteria

- The variety of comparatively successful models complicates the potential transition to a single local authority model.
- There is no consistent and accepted international pattern for organising the provision of water and sewerage services. In some countries these are local government services; in others they are stand-alone public entities; in others they are private sector or hybrid models.
- European Union legislative obligations (e.g. Water Framework Directive and Urban Waste Water Treatment Directive) will require significant investment in coming years. To the extent that expenditure (by private sector entities) scores outside the envelope of public expenditure, it would be unwise in a period of expenditure restraint, to bring this expenditure back on to the public books.

Proposal

We support the MANRE report's recommendations for the organisation of the central government interface on water and sewerage. Further changes should be made to streamline the provision of water and sewerage services at local level. These should take strong account of the success of water boards and sewerage boards to date.

Transition

The timeline for change will need to be aligned with proposals in the MANRE report.

9.16 Welfare

Overall, more than 9,000 people (adults and children) are being served by programmes within the field of social care, which operates with partial funding from Social Welfare Services. However the provision of day care centres for pre-school children, after-school care, elderly care and care of disabled people is currently a hugely dispersed service. For example, homes for the care of the elderly have been established in small communities in the past to meet certain needs, but now seem to have an insufficient number of clients. There is a great deal of duplication of services and lack of specialisation for particular care needs, resulting in some cases in expensive and sub-optimal care and large demands on the centre to monitor standards, and efficiency and effectiveness of service delivery.

The current arrangement has also resulted in a great deal of duplication of infrastructure and to a number of local authorities being in debt.

For several matters there is also a need to distinguish Social Welfare Services competencies from the competencies of other Departments relating to the Ministry of Health or the Ministry of Education.

Broad Criteria

- Welfare services must be offered on a needs basis. As they are important services, quality and specialisation of services can be improved and at the same time the number of centres offering the services can be reduced.
- When providing a service to vulnerable individuals, specialised care, adherence to the highest professional standards and regular monitoring is crucial, in order to guarantee high quality services for reasonable expenditure.

Proposal

We propose to maintain strategy, policy and monitoring at central government level and retain local government responsibilities, but to restructure the system to make better use of infrastructure and human and financial resources.

NGOs and local government staff should work together to provide services. NGOs will need to be registered and transparent, both in their finances and performance and accountable both to central government and to their clients.

We support the Welfare Service's proposed establishment of 'specialist centres' providing specialised services based on the number of clients and need in a given geographical area, rather than duplicating services of lower standards in each Municipality. One way of doing this would involve cooperation between the Municipalities or other local authorities, to create centres of excellence that provide specialised service e.g. counselling/support for specific disabilities.

All services will be monitored by the Social Welfare Services, on the basis of specific legislation, to ensure staff qualifications, professional ethics, quality of care, and effectiveness and efficiency of the services.

The strategy for the proposed reform of local government will be promoted through the cooperation/coordination of various stake holders, within the framework of network building at central and at district levels. In short, the central network will be the agent responsible for the policy outline and will include delegates from competent Ministries/Departments, the Union of Municipalities and Union of Community Councils or any other larger new local authority, as well as the Council for Volunteerism and the Commissioner for NGOs. The Social Welfare Services will keep a strategic role. District networks will be responsible for the delivery of services to beneficiaries, if required in collaboration with NGOs or private organizations.

Overall, greater areas of authority of local government should be established and should include:

- the transfer of responsibility for volunteering, from the community councils to these new local authority entities
- the reorganisation of existing services in larger areas, to achieve better performance and more efficient use of resources, and
- the specialisation of new establishments to tackle specific needs, such as social care for victims of violence. If required, additional infrastructure will be established or services will be provided through a public/private partnership model.

In addition, responsibility for certification of structural capacity and earthquake resistance for buildings used for the public will be transferred from the Public Works Department to local government.

It may be possible to transfer this function to Municipalities (and in turn to Local Communities once sufficient capacity has been established), in advance of implementation of local government restructuring.

Transition

In the short term, a comprehensive assessment by central government has already begun. The target is to examine existing programmes to determine the needs of local areas, services required, specialisation of professional care, and more generally qualifications of staff employed. Then decisions will be made about rationalisation of service provision and where specialised centres should be located, with the possibility of keeping existing centres where possible, and if necessary changing their functions.

10 Annexes

10.1

Annex 1: Local Government Map; Detailed

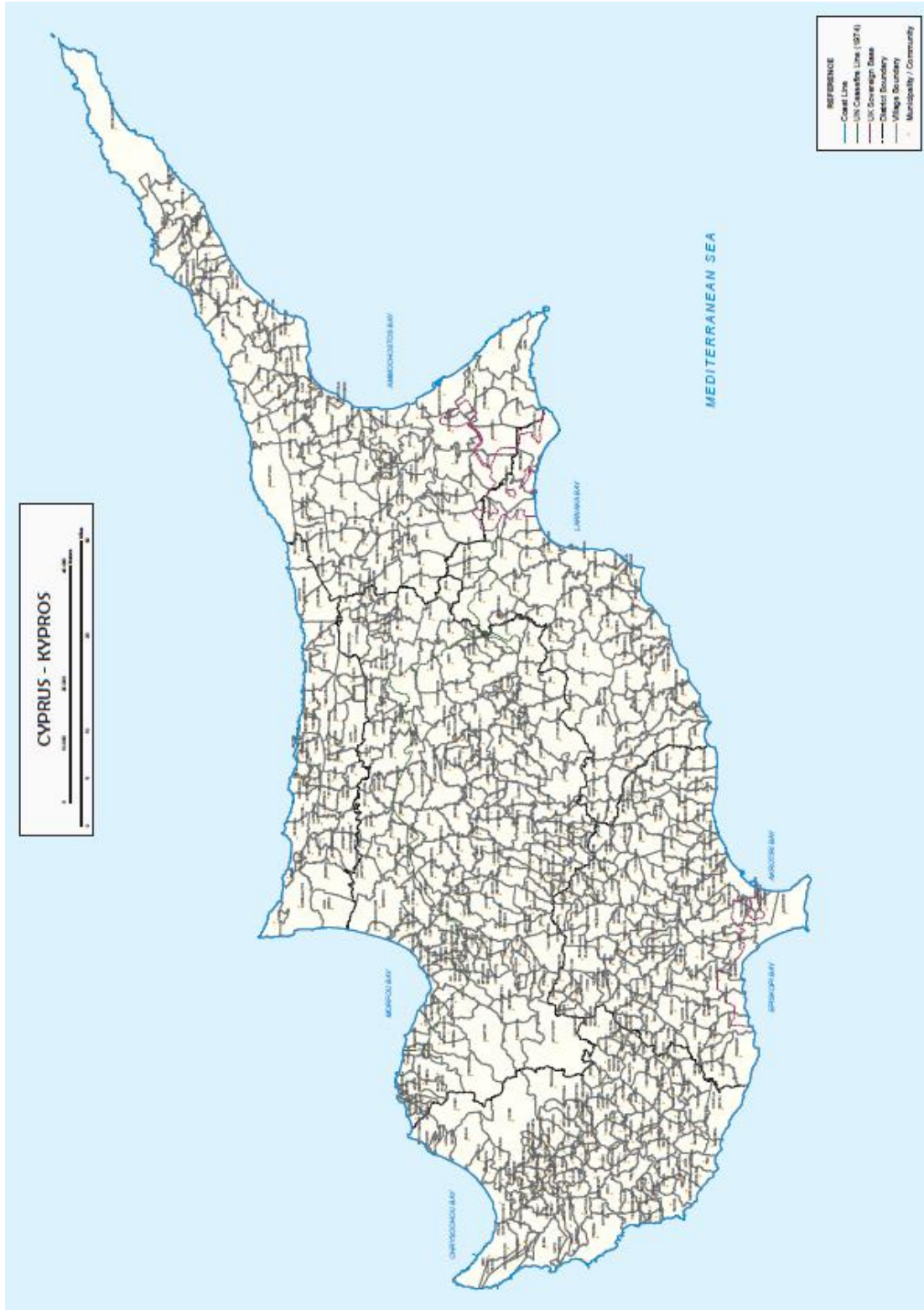


Figure 16 Administrative Map of Cyprus, 2013, Cypriot Land Registry

Annex 2: Further Financial Information

District Offices Expenditure

10.2 Levels of expenditure for the District Offices correlate broadly with population sizes e.g. Nicosia has the largest population size and the highest expenditure compared to Famagusta, which has the lowest population and the lowest expenditure. The pattern is unchanged for 2011 and 2012 (see Figure 18).

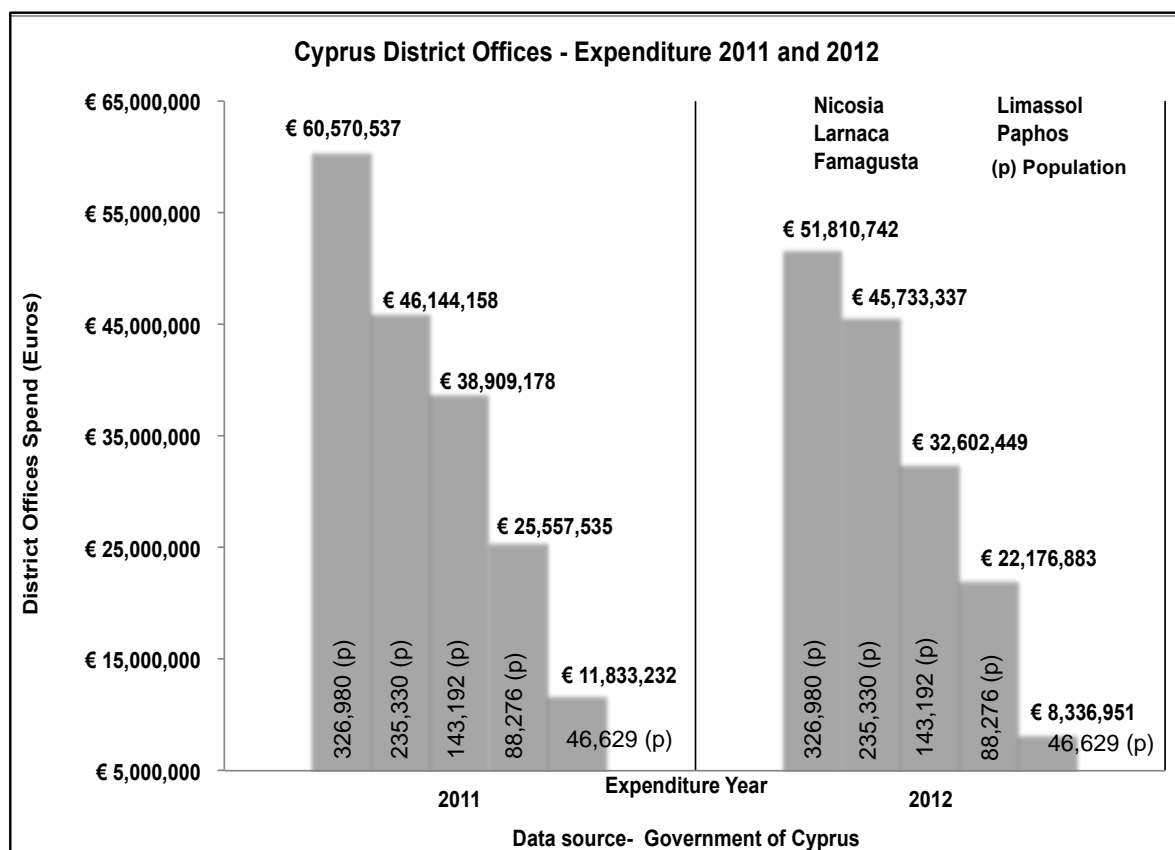


Figure 17 Expenditure and population per District Office 2011 and 2012

10.3 Expenditure reduced in 2012 compared to 2011 for each of the District Offices. The level of reductions is most pronounced for Famagusta at 29 %, Larnaca 16% and Nicosia at 14%. Paphos saw a decrease of 13% with Limassol's expenditure reducing by less than 1%.

10.4 Financial data has been provided by the Union of Municipalities, and has been split into two categories 'Group 1' and 'Group 2'. Group 1 consists of the largest Municipalities based on population size (with the exception of the Lakatamia Municipality which, although larger in size than Paphos, has been included in the financial dataset of group 2).

Group 1 Municipality Sources of Income 2012

10.5 The income for 2012 for Group 1 Municipalities was €129,285,208 of which the Municipality of Limassol generated the largest amount (€40,661,645) and Strovolos the least (€19,129,785).

10.6 The main source of income comes from government grants and compensations providing 34% of income in 2012. 27% of overall income was generated from duties, permits and other royalties, which is the second largest source.

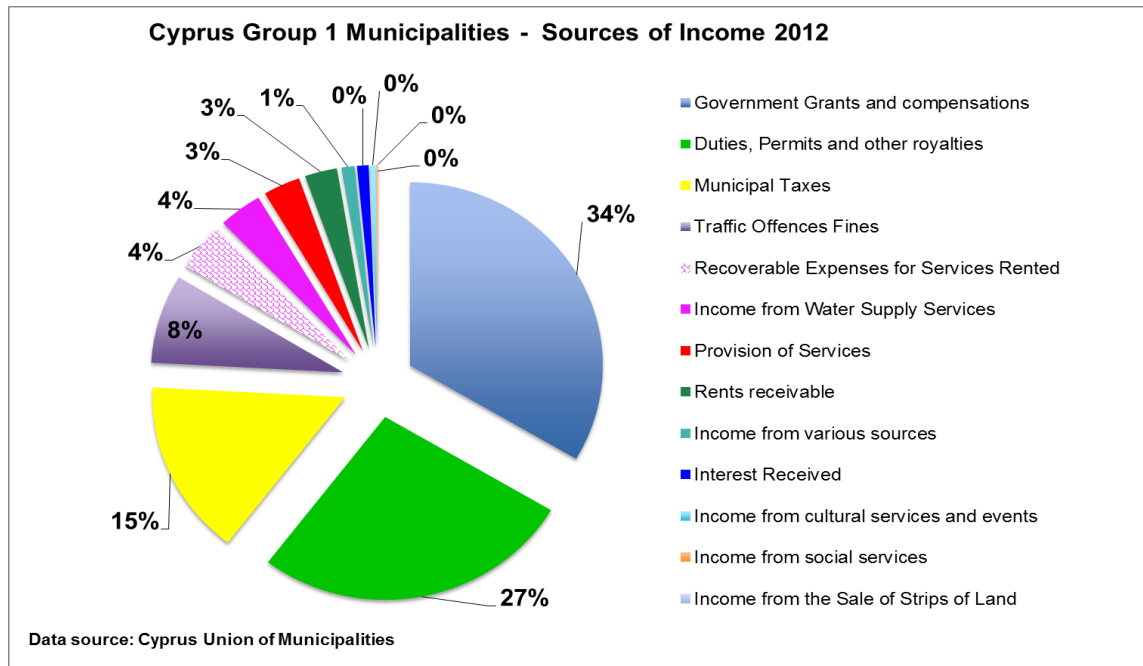


Figure 18 Group 1 Municipalities: total income broken down by % source 2012

10.7 Municipal taxes represent 15% of overall income and is the third biggest source generating €19,940,171.

Group 1 Municipalities Expenditure 2012

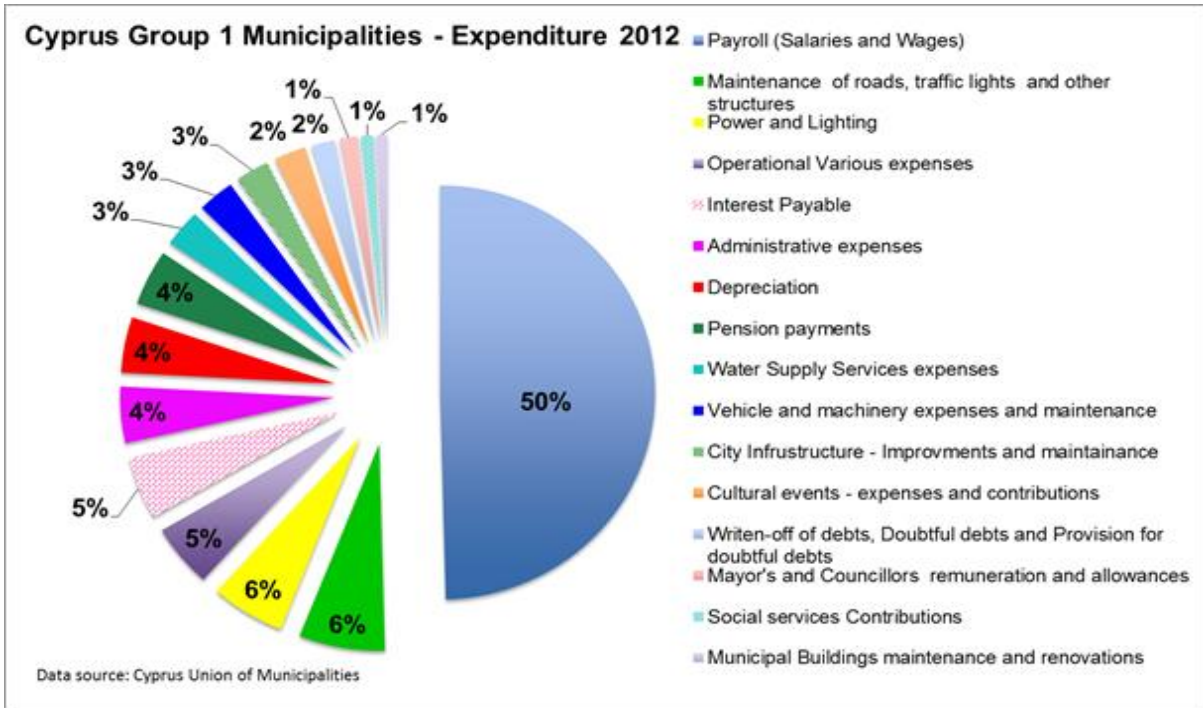


Figure 19 Group 1 Municipalities: total expenditure broken down by % spend 2012

10.8 The amount of expenditure per Municipality is not indicative of the size of population.

10.9 With regard to operating surplus and deficits for Group 1 Municipalities, Strovolos is the only municipality to end the year with an operating surplus; the remaining four finished the year in deficit. Limassol ended the financial year with the largest deficit, with the majority attributed to pension fund deficits from previous years (€13,072,805).

Group 2 Municipalities Sources of Income 2012

10.10 The income for 2012 for Group 2 Municipalities was €131,015,187, of which the Municipality of Paralimni generated the largest amount (€15,387,671) and Lefkara the least (€1,164,750).

10.11 The main source of income comes from government grants and compensations (34%). 24% of overall income was generated from duties, permits and other royalties, which is the second largest source. Water supply services represent 16% of overall income (see Figure 20).

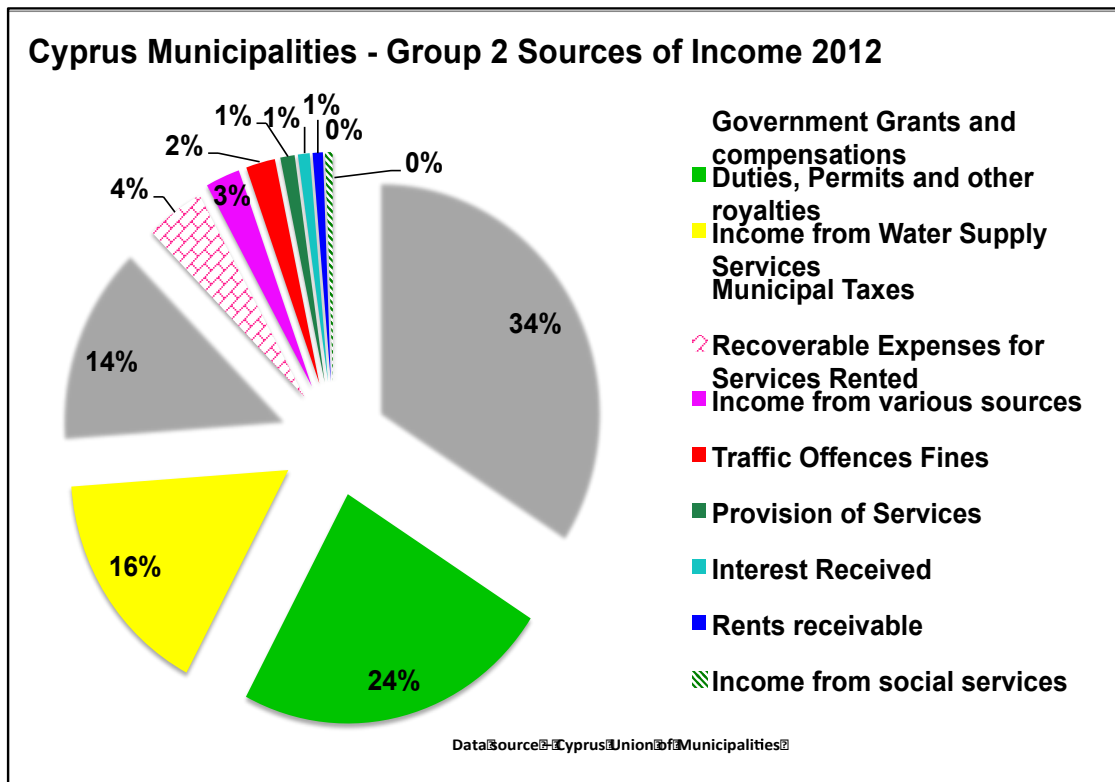


Figure 20 Group 2 Municipalities: total income broken down by % source

Group 2 Municipalities Expenditure 2012

10.12 The total expenditure for 2012 was €135,486,191 (excluding pension liabilities). The main source of expenditure for this group is payroll (salaries and wages) - 37% of budget in 2012.

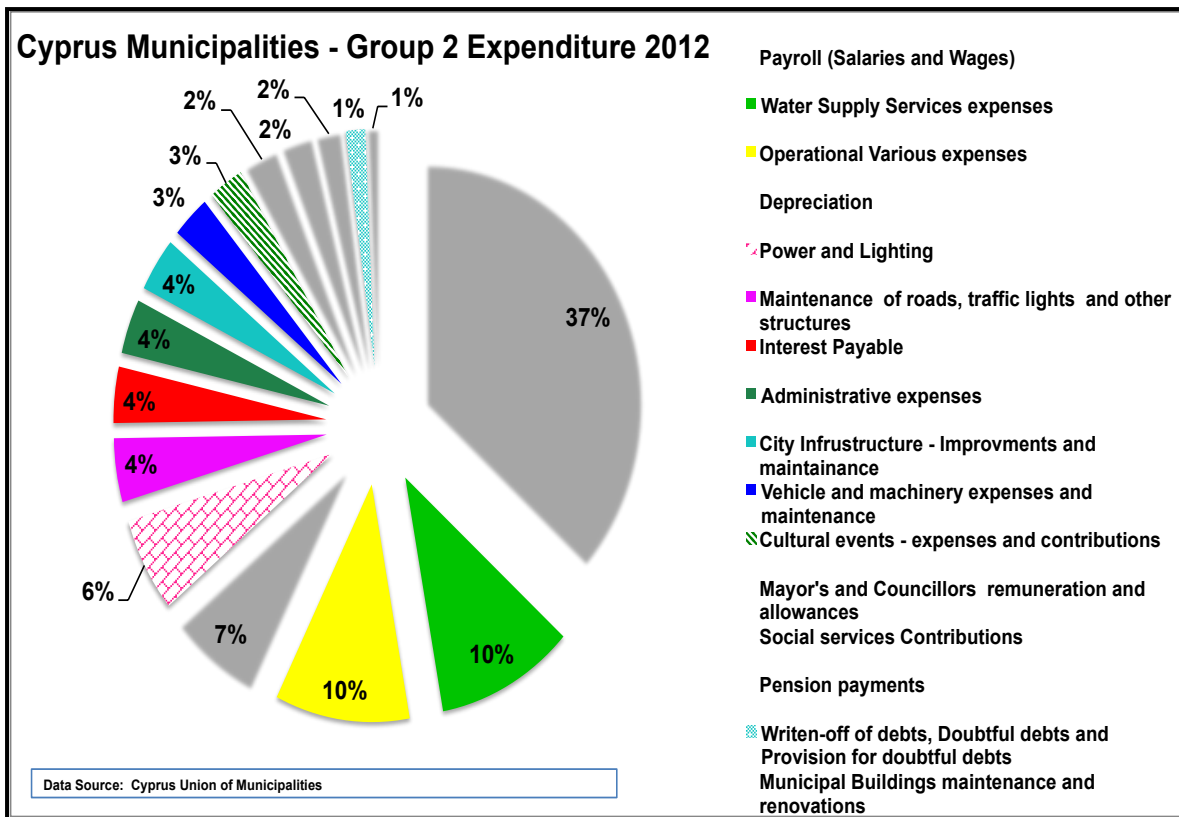


Figure 21 Group 2 Municipalities: total expenditure broken down by % spend 2012

10.13 The amount of expenditure per Municipality is not indicative of the size of population.

Annex 3: EKDDA Reform Approaches Discussion

Advantages		
Territorial Reform	Inter-municipal cooperation	Undertakings/Contracts
<ul style="list-style-type: none"> • availability of resources • ability to assume new responsibilities, actions and initiatives • democratic legitimization • economics of scale • tackling of negative externalities 	<ul style="list-style-type: none"> • availability of resources • sharing of risk • economics of scale • specialization • tackling of negative externalities • drawing revenue • distributive effectiveness 	<ul style="list-style-type: none"> • availability of resources • shifting business risks to private individuals • economics of scale • reduction of expenditure • creation of quasi markets in the local economy
Disadvantages		
<ul style="list-style-type: none"> • high political and economic cost of implementation of the reform • higher cost of coordination of municipal services • bigger degree of politicization • facing local peculiarities from a distance 	<ul style="list-style-type: none"> • low political and economic cost of implementation of the reform • high cost of checking the activity of the assignee (co-operative form) by the assigner (LGOs) • limited possibility of contributing to the development planning of the territorial entity • limited opportunities for direct democratic control and accountability 	<ul style="list-style-type: none"> • high political and economic cost of implementation of the reform • high cost of checking the activity of the assignee (co-operative form) by the assigner (LGOs) • dealing with a single issue • dominance of business mentality in the provision of public goods • fragmentary contribution to the overall development planning of the territorial entity • limited link to direct democratic legitimization, accountability and control

Figure 22 EKDDA Reform Approaches Discussion

Annex 4: Officials Consulted

Mission1

10.14 The team visited-

- The Commissioner for the reform of the Civil Service
- The Permanent Secretary of the Interior Ministry and his team
- The Permanent Secretary of Education
- The Auditor General
- Representatives from the PAPD and Planning (MOF)
- The Director of Finance, MOF
- Representatives from Municipalities Secretaries
- PWC
- Heads of departments from relevant line ministries
- Commissioner for the Environment
- Representatives from the water and sewage boards
- Municipality Mayors and Council Members, Presidents of Local communities and Councillors
- Secretaries and operational staff for all levels of local government
- Representatives from Civil Society
- Union of Municipality and Union of Communities

Mission 2

10.15 The three workshops were attended by -

- Andreas Lambrou, Secretary of Strovolos Municipality, Municipality of Strovolos
- Athena Aristotelous Kleridou, Acting Director of Town Planning Department, Ministry of Interior
- Constandinos Yiorkatzis, Mayor of Municipality of Nicosia, Municipality of Nicosia
- Marios Panagides, Acting District Officer of Nicosia, District Administration of Nicosia
- Eleftheria Shepi, Chief Administrative Officer, Ministry of Interior
- Angelos Georgiou, Assistant District Officer, Ministry of Interior
- Lenia Orfanidou, Chief PAPD Officer, Public Administration and Personnel Department
- Emmanuela Lambrianides, Commissioner for the Reform of the Civil Service
- Elena Stavrou, Officer at Commissioner for the Reform of the Public Service
- Stavros Michael, Director of Finance, Ministry of Finance
- Olympia Stilianou, General Director, Ministry of Education and Culture
- Tasoula Chadjiprodromou, Ministry of Education and Culture
- Michalis Sarris, President of Friends of Nicosia

- Christos Christou, Acting director of Public Health Services, Ministry of Health
- Filippos Soseilos, PWC Cyprus
- Kostas Xatzipanagiotou, Director of the Department of Environment, Ministry of Agriculture, Environment and Natural Resources
- Kiriakos Kirou, Director of Water Development Department, Ministry of Agriculture, Environment and Natural Resources
- Andreas Kitromilides, President of Union of Communities, Union of Communities
- Lefteris Perikli, Member of Board, Union of Communities, Union of Communities/ President of Apesia Community
- Louis Coumenidis, Member of Board, Union of Communities, Union of Communities/ President of Lefkara Community
- Alexis Galanos, President of Union of Municipalities, Union of Municipalities
- Lazaros Savides, Member of the Union of Municipalities, Union of Municipalities/ Mayor of Strovolos
- Nicos Lakovou, Director of Public Works, Ministry of Communications and Works
- Anna Aristotelous, Ministry of Justice

Mission 3

The team met with-

- the PS of MoI, Administrative Officials (including on strategic planning) and District Officers
- the MoF to discuss PFM Reforms and how this would affect Local Government

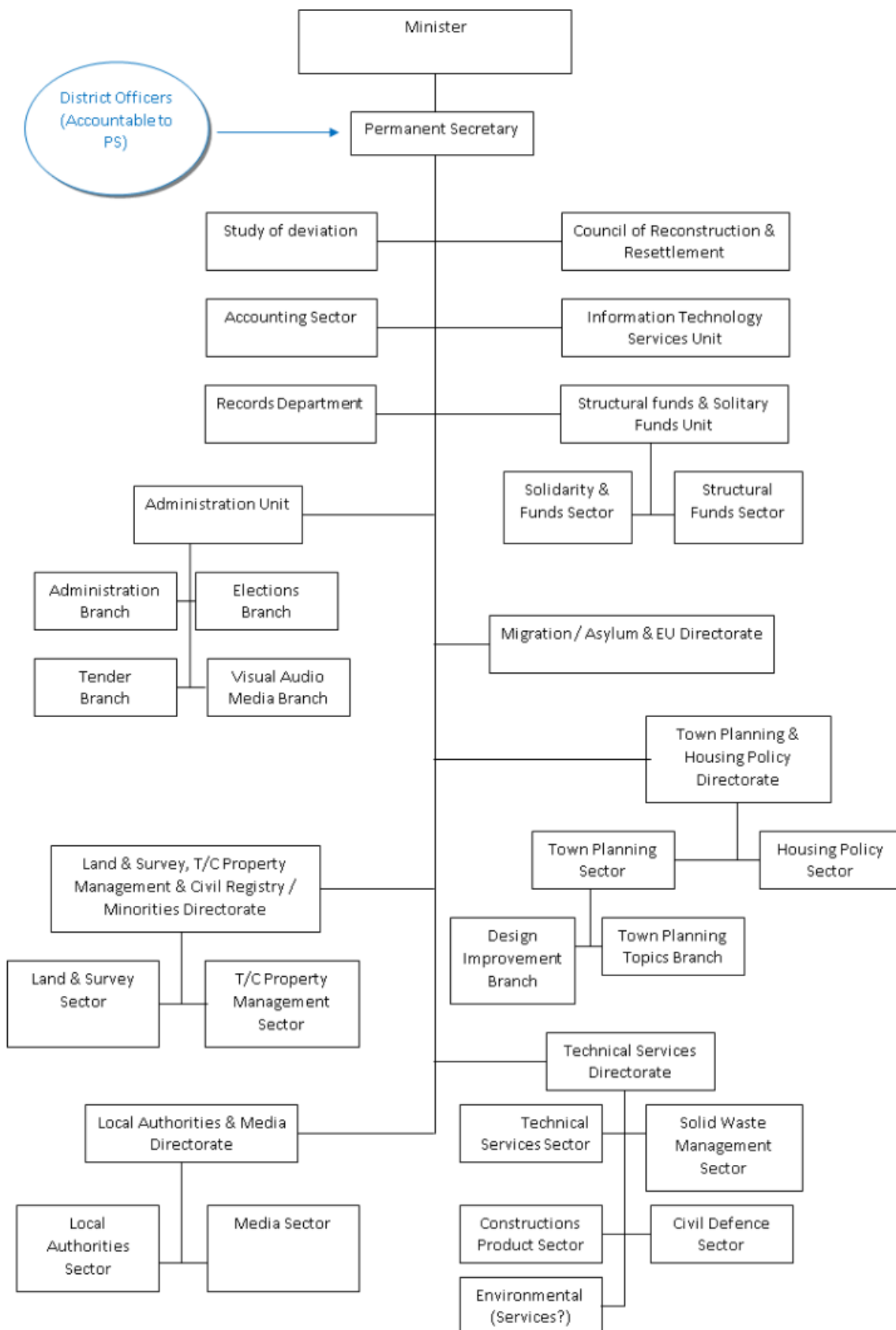
The team also held focused Interviews with officials from relevant departments about the following-

Mission 4

The team met with:

- HE Minister of Interior, Commissioner of the Reform of Public Services, Permanent Secretary of MoI, Head of Strategy MoI
- the Ministry of Health, Ministry of Education and Culture, Public Works Department, Town Planning and Housing Department
- the District Offices, Accountant General
- the Union of Municipalities and Union of Local Communities
- representatives from The Green Party, The Citizen's Alliance, AKEL, EYROKO, EDEK, DHKO and DHSY.

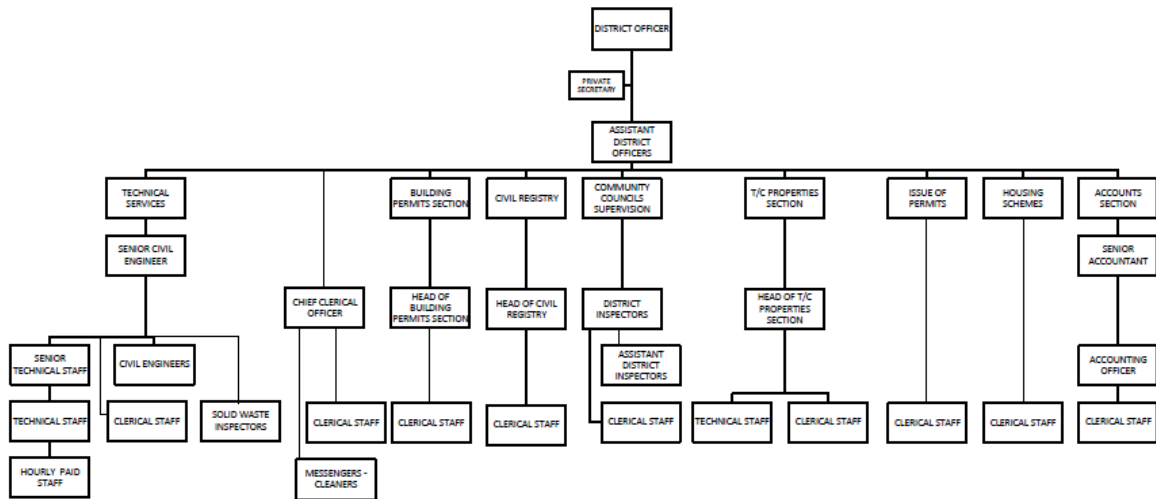
Annex 5: Ministry of Interior Organogram



Annex 6: Nicosia District Office Organogram

10.16

NICOSIA DISTRICT ADMINISTRATION ORGANISATIONAL CHART



Annex 7: Excerpt of FRBSL ('Umbrella Law') Legislation - Unofficial English Translation³⁰

PART XII- LOCAL AUTHORITIES

Responsibilities of the Minister

90. - (1) Subject to the provisions of the Municipalities Law and the Communities Law, as amended or replaced, and other relevant laws, the Minister, exercising the powers conferred to him by this Law, is responsible for ensuring structured economic management by municipalities and communities

(2) Subject to the provisions of subsection (1) , the Minister shall cooperate with the Minister of the Interior in the execution of the tasks referred to in that subsection.

Rules on undertaking commitments by Local Authorities

91. - (1) The rules on undertaking of commitments by Local Authorities are regulated in accordance with the laws in force and regulations applicable from time to time.

(2) In case that,

(a) a municipal council applies for the approval of the Council of Ministers to borrow money, issue bonds, or borrow temporarily from a bank or cooperative under section 85(1) (a) or (c) or 85(2)(a) of the Municipalities Law, as amended or replaced; or

(b) a community council applies for the approval of the District Officer to borrow money or borrow temporarily from a bank or cooperative under section 83(a) or (b) of the Communities Law, as amended or replaced,

the municipality council shall submit to the Minister of the Interior and the community council to the District Officer the necessary information indicating that such transactions conform with the rules on undertaking obligations in such form and manner as specified by the Minister.

(3) When a municipality or community violates any of the rules under subsection (1), and until there is compliance with them,

(a) the power of the municipality council or the community council referred to in subsection (2) to borrow money, issue bonds, and borrow temporarily from a bank or cooperative under section 85(1)(a) or (c) or (2)(a) of the Municipalities Law, as amended or replaced, or under section 83(a) or (b) of the Communities Law, as amended or replaced, shall be entirely suspended; and

³⁰Ministry of Finance, FRBSL Unofficial English Translation, March 2014

(b) the Council of Ministers or the District Officer may not approve any borrowing or issuance of bonds or temporary borrowing from a bank or cooperative under the aforementioned sections of the Municipalities Law and the Communities Law, as amended or replaced.

Rules under the Fiscal Strategy Statement

92.-(1) The Fiscal Strategy Statement may establish any rules for the debt or the balancing of the budgets of municipalities and communities, in addition to the rules under section 91 (1).

(2) The Minister and the Minister of Interior or the District Officer shall not approve the budget of any municipality or any community if such budget is in not compliance with the rules under section 91(1) or the Fiscal Strategy Statement.

Formulation and submission of the budget of a municipality or a community

93.-(1) Subject to the Municipalities Law, as amended or replaced, the Minister and Minister of the Interior shall jointly approve the budget of each municipality on behalf of the Council of Ministers.

(2) In addition to the approval by the District Officer under the Communities Law, as amended or replaced, the Minister shall approve the budget of any community.

(3) The development budget of municipalities referred to in subsection 66(1) of the Municipalities Law, as amended or replaced, shall be incorporated in the annual budget of the municipalities.

(4) Each municipality shall submit their annual budget of the following year to the Minister and the Minister of Interior for their approval by October 31st, in accordance with section 65 of the Municipalities Law, as amended or replaced.

(5) Subject to section 64(3) of the Communities Law, as amended or replaced, each community shall submit their annual budget of the following year to the competent District Officer and to the Minister for his information or approval, as the case may be, by November 30th.

(6) When a municipality intends to revise their budget during a fiscal year, such revision shall be approved jointly by the Minister and Minister of Interior.

(7) When a community intends to revise their budget during a fiscal year, such revision shall be submitted to the competent District Officer for his approval and to the Minister for his information or approval, as the case may be.

(8) When the amount of transfers or grants to a municipality or community included in the budget bill has been changed by the annual Budget Law adopted by the

House of Representatives, the municipality or community shall revise its budget as soon as practicable in accordance with subsection (6).

(9) The Minister may by circular establish any requirement in respect of the contents, structures, and accompanying documents of budgets of municipalities and communities.

Execution of the budget of municipalities and communities

94.-(1) After the approval of the respective budgets, each municipality and community shall submit to the Minister and the Minister of the Interior the forecasts of the revenues and expenditures with quarterly breakdown for the whole fiscal year, by the end of January of the fiscal year.

(2) Each municipality and community shall submit to the Minister and the Minister of Interior by such time as the Minister determines a monthly budget report which shall contain –

- (a) the update of the forecasts of the revenues and expenditures for the remainder of the fiscal year under subsection (1);
- (b) the actual revenues and expenditures by month for each of the preceding months in the fiscal year; and
- (c) any other matters as may be required by the Minister.

(3) The Minister may determine the forms of, and the procedures and methods for preparing and submitting, forecasts under subsection (1) and a monthly budget report under subsection (2).

(4) The Minister may, in consultation with the Minister of Interior, require a municipality or community to allocate an annual appropriation for an item of expenditure under its budget to each quarter, and if such allocation is made, the municipality or community may not spend more than the allocated amount within the respective quarter, without the prior approval of the Minister.

Sanctions

95.-(1) When-

(a) a municipality or community is in breach of the rules on undertaking commitments, under section 91 (1) or any other rules established under the current Fiscal Strategy Statement in force or spends in excess of the amount allocated to each quarter under section 94(4) or ;

(a) the actual expenditure of a municipality or community significantly exceeds the forecast of the expenditure submitted by the municipality or community under section 94(1) or (2), or

(b) a municipality or community does not submit within the timeframes set by the Minister the details requested under section 94 (1) and (2),

the Minister may, in consultation with the Minister of Interior, –

(i) require the council of the municipality or community to submit to the Minister and the Minister of Interior for their approval a plan of action to resolve the excess or bring the actual expenditure back to the level of the original forecast for the specific period of time;

(ii) appoint a financial administrator for a specific period of time who takes over the powers of the municipality or community to decide such key financial decisions as specified by the Minister;

Provided that the financial administrator appointed under the above subsection shall act as an agent of the Minister and shall be under the supervision and the instructions of the Minister,

(iii) prohibit or limit the recruitment of officers and other personnel of the municipality or community for a specific period of time;

(iv) approve any change in tax rates, fees, and any other form of charges levied by the municipality or community, if the municipality or community has the power to make such change;

(v) suspend, in whole or in part, the power of the council of the municipality or community to spend more than the amount of an expenditure item in an approved budget within the amount of savings in other expenditure item under section 66(1) of the Municipalities Law, as amended or replaced, or section 64(3) of the Communities Law, as amended or replaced and

(vi) require any reporting of financial and other information in addition to the requirements under this Law or any other law on the basis of a predetermined timeframe.

Provided that in case of non-timely compliance of the municipality or the community with the timeframe, the Minister may make a reduction or suspension of government grant to them.

Annex 8: Financial Information Made Available on Request to NSGI

The below table provides a summary of the data requested by NSGI from the Ministry of Interior during the final de-brief of Mission 4, and following on from Mission 4 (the final 3 points).

Information Requested	Received (Yes/No)
Decide on services delivered by new second tier Local Authorities (Option A and B)	N
Settle number of new Local Authorities (Option A and B)	N
Decide whether boundary changes are needed e.g. to make them more equal in size, and consider appointment of independent body to draw boundaries (Option A and B)	N
Confirm that the second tier is indirectly elected (nominated body) and operates only in Municipal areas (Option A)	N
Define future role of District Offices (Option A and B)	N
Define and communicate the new role of Municipalities (Option A)	N
Money that will be transferred to the new Local Authorities (Option A & B) from District Officers, Line Ministries, Municipalities and Local Communities both in total and for each service	N
Number of people working in the new Local Authorities (Option A and B), (both in total and for each service) drawing on District Officers, Line Ministries, Municipalities and Local Communities	N
Estimate of the cost of transition from current to future models and the payback period (Option A and B)	N
Estimate residual cost of Municipalities in their representative role, and cost of Communities (Option A)	N
Confirm timescales for implementation (Option A and B)	N
An assessment of the financial health of individual Municipalities, and their ability to meet the future PFM requirements.	N

Input from the GoC on the financial section of the report, specifically the data used and costs of restructuring.	N
Input from the GoC on the team's understanding of the GoC policy positions	N

Figure 23 Information Requested by NSGI during and after Mission 4

Data Received

The below list details the most recent information received from the Ministry of Interior, received one working day prior to the submission of the Final Options report.

- Local Communities
33 excel workbooks relating to income and expenditure of Local Communities (in Greek).
Data is in raw form and does not provide analysis or Totals
- Municipalities, District Offices and Local Communities
Workbooks containing information of 18 Municipalities, District Offices and Totals for Local Communities, giving a breakdown of Expenditure for:-
 - Democratic Representation
 - Provision of Services
 - Overheads
- District Offices³¹
Detailed breakdown of Services undertaken by each of the District Offices including specific costs relating to municipalities and local communities expenditure and the same for income.

³¹ Although we have been given indicative costs of services provided to Municipalities and Local Communities, this does not constitute a confirmation of the budgets that would transfer, as detailed in Figure 23.

Annex 9: Outline budget structure for a new Local Authority

10.17 For the purpose of illustration the table below shows possible local authority organisational structure and the services within it. This can be used as the basis of a budget structure.

Example of Departments and Services			
BUSINESS, ECONOMIC DEVELOPMENT & TOURISM	GROSS EXPENDITURE€	GROSS INCOME€	NET EXPENDITURE €
Public Consultation and Press			
Cultural Services and Arts Programme			
Economic Development			
Industrial Estates			
Miscellaneous Properties			
Business Enterprise Centre			
Libraries			
Museums			
Town Centre			
Public Conveniences			
Swimming Pools and Leisure Centres			
Public Halls			

Tourism			
Sub-total			
COMMUNITY ENGAGEMENT, HEALTH & ENVIRONMENT	GROSS EXPENDITURE€	GROSS INCOME€	NET EXPENDITURE€
Animal Control			
Coast Protection			
Emergency Planning			
Environment Management			
Licensing			
Other Health Services			
Port Health			
Public Consultation and Press			
Public Health			
Beach Lifeguards			
Air Quality			
Schools			
Taxi Licensing			
Voluntary Sector Support			
Sub-total			

Example of Departments and Services (continued)			
FINANCE & COST CONTROL	GROSS EXPENDITURE €	GROSS INCOME €	NET EXPENDITURE €
Collection Costs - Tax			
Corporate Administration			
Rent Allowances			
Rent Rebates			
Treasury Management and Bank Charges			
Sub-total			
HOUSING GENERAL FUND	GROSS EXPENDITURE €	GROSS INCOME €	NET EXPENDITURE €
Homelessness			
Housing Advances and Associations			
Housing Elderly			
Strategic Housing Services			
Sub-total			
MAYOR OF THE COUNCIL'S OFFICE	GROSS EXPENDITURE €	GROSS INCOME €	NET EXPENDITURE €
Councillors Allowances and Civic Expenses			
District Council Elections			
Electoral Registration			

Land Charges			
Sub-total			
PLANNING	GROSS EXPENDITURE	GROSS INCOME	NET EXPENDITURE
	€	€	€
Building Control			
Design and Conservation			
Development Control			
Planning Policy			
Street Naming, Numbering and Road Closures			
Sub-total			

Example of Departmental Services (continued)			
LOCAL ENVIRONMENT	GROSS EXPENDITURE €	GROSS INCOME €	NET EXPENDITURE €
Allotments			
Cemeteries			
Other Amenity Services			
Parks and Open Spaces			
Gardens			
Recycling			
Refuse Collection			
Street Cleansing			
Community Safety			
Car Parking (includes Traffic Wardens)			
Sub-total			

For each of these services, there are further levels of detail. For example, for car parking a service budget is set out below.

<u>Car Parking Expenditure</u>	2014 Actual €	2015 Budget €	2016 Budget €
Salary Recharges – Local Environment			
Salary Recharges - Property Services			
Salary Recharges - Parks and Cemeteries			
Employee Insurance			
Employees			
Repairs – Responsive			
Upkeep of Grounds			
Maintenance Funded from Leisure Buildings Reserve			
Energy - Electricity to provide Street Lighting in Car Parks			
Energy - Electricity Standing Charges			
Water Charges			
Waste Water Charges			
Non Domestic Rates Liability			
Alarm System Costs			
Fire Equipment			
Fixed Machinery Maintenance			
Replacement & Renewal of Fixtures & Fittings			
Cleaning Materials			
Internal charge Refuse Collection			
Premises Insurance			
Premises			
Recharge of Car Allowances			

Council Vehicle Costs - excluding Capital Charges	
Transport	
Clothing	
Small Plant & Tools Purchases	
Printing of the Car Parking Tickets	
Stationery	
External Car Park Management	
Payment for managing the Car Parks via the parking contract	
Charges - Legal Costs	
Charges – Advertising	
Contractual Payments in respect of the Grounds Maintenance Contract	
Contractual Variation Payments in respect of the Grounds Maintenance contract	
Internal contribution -waste service for Car park cleaning	
Inspection Service Recharge	
Car Park Cleaning by Local Environment	
Postages	
Telephone Calls	
Telephone Rentals	
Bad or Doubtful Debts Provision	
Insurance Third Party & Miscellaneous Premiums	
Supplies and Services	
Refunds	
Transfer Payments	

Sub-total Direct Expenditure	
Total Expenditure	

Car Parking Income	2014 Actual €	2015 Budget €	2016 Budget €
To grant permission for Sales of Food			
Sales			
Income from Pay & Display off street car parks			
Car Parking Permits Issued			
Car Parking Fines Issued (Parking Charge Notices issued by contractor)			
Miscellaneous Income			
Income from Works Recharged			
Fees and Charges			
Rent Received - Other minor area of Land			
Rents			
Total Income			
Net Direct Cost			
Support Services-Audit & Financial Services			
Support Services-Personnel			
Support Services-Legal Function			
Support Services-Print Unit			
Support Services			
Departmental Overheads - Inspection Service			
Departmental Overheads - Property Services			
Departmental Overheads - Parks & Cemeteries			

Overheads	
Sub-total Indirect Expenditure	
Net expenditure/Income to summary	