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Interim Report on Local Government Reform

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January 20, 2014



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
Mol	Ministry of Interior
Ms	Municipalities
NSGI	National School of Governance International
NGO	Non Governmental Organisation
PS	Permanent Secretary
PFM	Public Financial Management
SB	School Board
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 Ms. Emmanuela Lambrianides (the Commissioner for Public Sector Reform) 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 interim 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 report is a draft, subject to further discussions with the Cypriot authorities, as was agreed in the terms of references.

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).

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 the local government outlined in this report falls within these structural reforms.¹

Remit and Terms of Reference

The overarching requirement for the work of the National School of Government International (NSGI) is to carry out a series of reviews 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

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

We have been influenced by trends in local government reform across Europe and in particular by the following common principles for reform: transparency, decentralisation, customer focus, behaviour change, and efficiency and effectiveness.

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.

¹ Reference the Memorandum of Economic and Financial Policies

Specifically in relation to local government, we 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’ (ie t 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.

Recommendations

Against this background, we drew up and agreed in workshops:

- 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
- key blockers to meeting the vision and the rights and responsibilities
- key enablers to mitigate the negative effects of the blockers.

We recommend a new role for the Ministry of Interior, leading and coordinating with other departments to set an overall strategic framework for local government, including policy frameworks, performance management, and facilitating and supporting capacity building. The workshop outcomes provide a good starting point.

We devised a series of options for restructuring local government to provide greater capacity and enhanced accountability. We recommend establishing 5 new local authorities, with boundaries that match existing District Offices, formed by combining District Offices with existing Municipalities and Communities within their areas. Staff and financial resources would be drawn from existing bodies.

Short of this, there is an option for large scale restructuring of existing Municipalities and Communities, through mergers. This is feasible, but is likely to under-perform compared with potential and face more practical difficulties in implementation.

We concluded that it is feasible to specify a strategic role for central government and an enhanced delivery role for local government for a broad range of specific services, and we reached preliminary conclusions for a set of 14 services. These conclusions will need to be revisited once decisions on restructuring have been

taken, since the optimum outcome for services depends greatly on the capacity of local authorities.

We have carried out some financial analysis, based on available data, but this is limited. Better information will be needed to inform decisions on restructuring and assemble budgets for new local government bodies. We have made suggestions on how to approach this.

Successful implementation of the cross-cutting reforms for Public Finance Management and Human Resources is essential to deliver the ambitions and to meet the challenges for local government.

Finally, we have set out our understanding of the immediate timeline and the actions needed for the period to March 2013.

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.

1 Terms of Reference

The activities of the National School of Government International 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".

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".

1.1 Principles

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.

1.2 Tasks

The tasks outlined below were identified to guide the implementation of the Terms of Reference. The team was 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.

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)

² In line with the 1985 Chart for Local Administration

- 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 structures³.

The study will also consider the following issues in co-ordination with cross-cutting experts:

Financial Issues

- General financial issues/budget autonomy
- Funding: own resource possibilities, grant arrangements
- Capacity building for financial planning and management at a local level
- Accountability & control arrangements/transparency/governance/internal and external audit arrangements

Human Resources Management Issues

- Transparency and political neutrality for recruitment and promotion of Local Administration officials
- Mobility a) within local administration b) between central and local administration
- Performance appraisal of personnel

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.

1.3 Methodological Approach

From the outset, it was recognised that the 'reorganisation and restructuring' of local government could not be seen in isolation. Any proposed options for 'single service delivery' and 'restructuring' had 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.

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

³ This is addressed, with regard to the MoI, in further detail in Section 3.3 under '*What we learned*'.

- 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 team 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.

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.

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). These workshops aimed to build consensus on the mandate 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.

2 Background

2.1 Current Structure



Figure 1 Map of Cyprus, Land and Surveys Department, Ministry of Interior, Cyprus, 2012

Cyprus is a democratic republic whose local government system consists of unitary (single tier) urban municipal councils and rural community councils.⁴

There are 30 Municipal Councils in the major towns and tourist areas, and a further 9 Municipal Councils in the occupied area. Municipal Councils are led by mayors. By European standards, the average population size of Cypriot Municipalities is low, the fifth smallest in Europe at 2,211.⁵

⁴ Find in Annex, a more detailed map of all LG structures

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

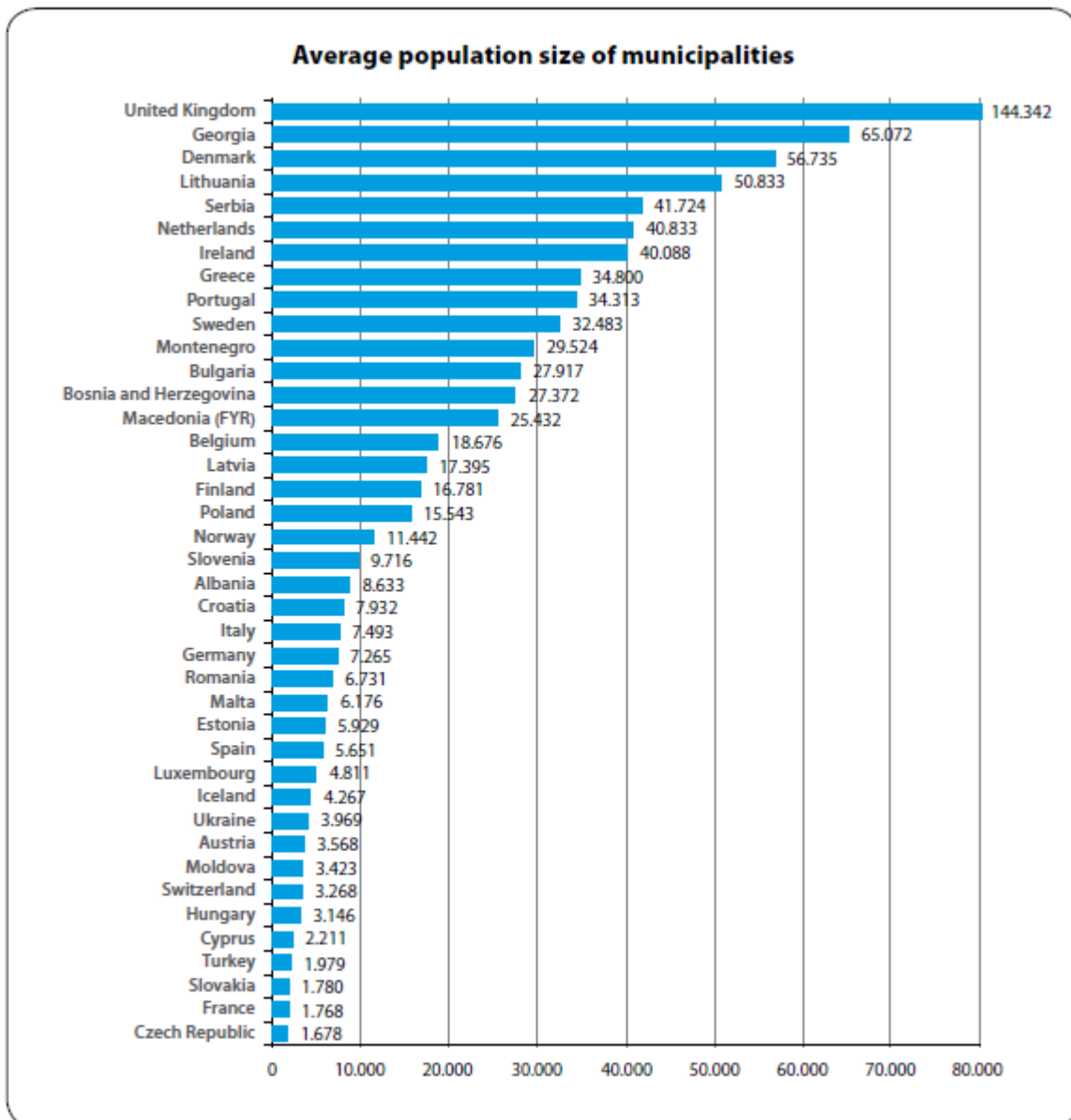


Figure 2 CEMR Decentralisation at a crossroads - Territorial reforms in Europe in times of Crisis, 2013

There are 350 Community Councils, with a further 137 in the occupied area of Cyprus. As most of Cyprus is rural land, Community Councils govern 85% of the island's total land area.⁶

In general, Community Councils are generally responsible for waste disposal, water supply and public health. Municipal Councils are, in addition, responsible for the social services, and some larger Municipal Councils are responsible for the process of planning permission.

These are substantial differences between Municipal Councils and Community Councils in terms of power exercised, their role in the government structure, and the

⁶ *The Local Government System in Cyprus*, 2013, Commonwealth Local Government Forum (CLGF)

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

The most recent Auditor General’s report on local government states in summary 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”.

The Auditor General summarises the key issues for **Municipalities** 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.

Overall she argues 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.

With regard to **Local Communities**, many of the above issues (and certainly the recommendations) apply. In addition, key issues are summarised as:

- the large number and small size of Communities (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
- lack of management skills of many Community Board members and lack of a uniform, integrated accounting system. The latter in particular leads to unnecessary costs.

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

⁷ EKDDA, *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

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

The Ministry of Interior oversees local government, and formulates and implements central government policy. To aid in this, Cyprus is divided into 6 districts for administrative purposes, of which Paphos, Lemesos, Famagusta, Nicosia, Larnaca are under Cypriot administration. Many functions which are carried out by Municipalities in urban areas are currently executed by District Offices in rural areas. Community Councils do not normally have powers to undertake these responsibilities and therefore a large proportion of services in rural areas are carried out by District Offices, on behalf of central government.

This has 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

It is worth noting that the expenditure of subnational and local public sector government as % of GDP in Cyprus is the second lowest of EU countries, with only Malta spending less. Low subnational 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' CEMR (2011)¹⁰ (see Figure 3 below).

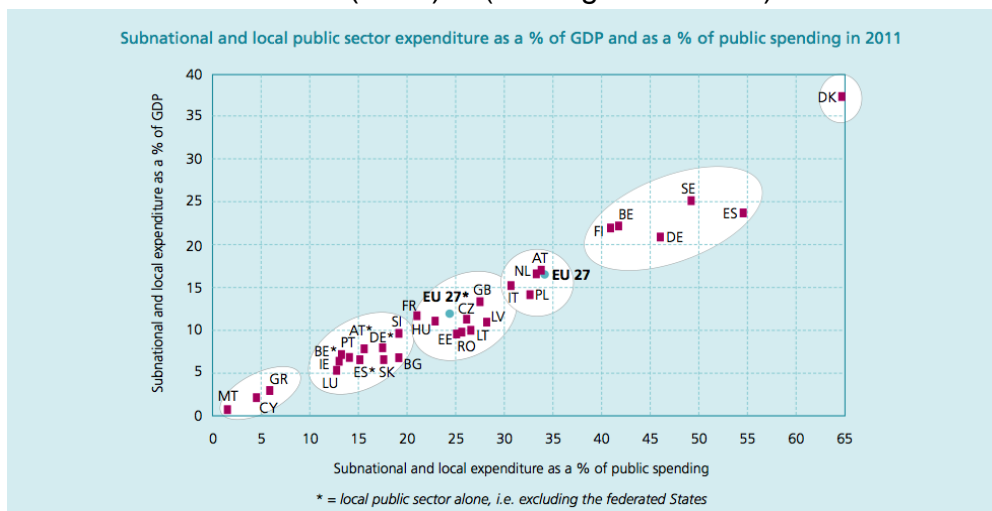


Figure 3 CEMR Subnational public finance in the European Union, 2011, Dexia

The Eurostat information document 'Government expenditure by sub-sector of general government 2011' suggests that the local government sub sector in Cyprus

⁸ Ibid, p.16

⁹ Ibid

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

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.

2.2 Pressure for Reform

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 service levels 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 an acceleration in the pace of public sector reform, leading to better quality and lower cost services.

2.3 Current Trends – Principles

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

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

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

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

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

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

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 outcome, and to communicate clearly to citizens the services they can expect and the citizen role in providing these.

Efficiency and Effectiveness

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.

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.

2.4 Current Trends - Approaches

The 2009 EKDDA report concisely reports current approaches to local government reform in Europe. For a discussion of the below scenarios, see Section 6.2 EKDDA Reform Approaches Discussion.

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. This 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.¹²

Box 1: Reformatory Approaches¹³

2.5 European Trends

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. CEMR (2012)¹⁴. The reforms taking place across Europe have led to a significant reduction in the number of municipalities. Examples can be seen in

Figure 4.

¹² See Annex 6.2 EKDDA Reform Approaches Discussion for the advantages and disadvantages of the reform approaches.

¹³ EKDDA, *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

¹⁴CEMR *Subnational public finance in the European Union,2012, Dexia, p. 6*

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 4 adapted from CEMR Subnational public finance in the European Union, 2011, Dexia

The consolidation of subnational governments has also been a catalyst for seeking the optimum size of municipalities. “In 2011, the average European Municipality totalled 5,630 inhabitants across a surface area of 49km²”¹⁵ (See Figure 5).

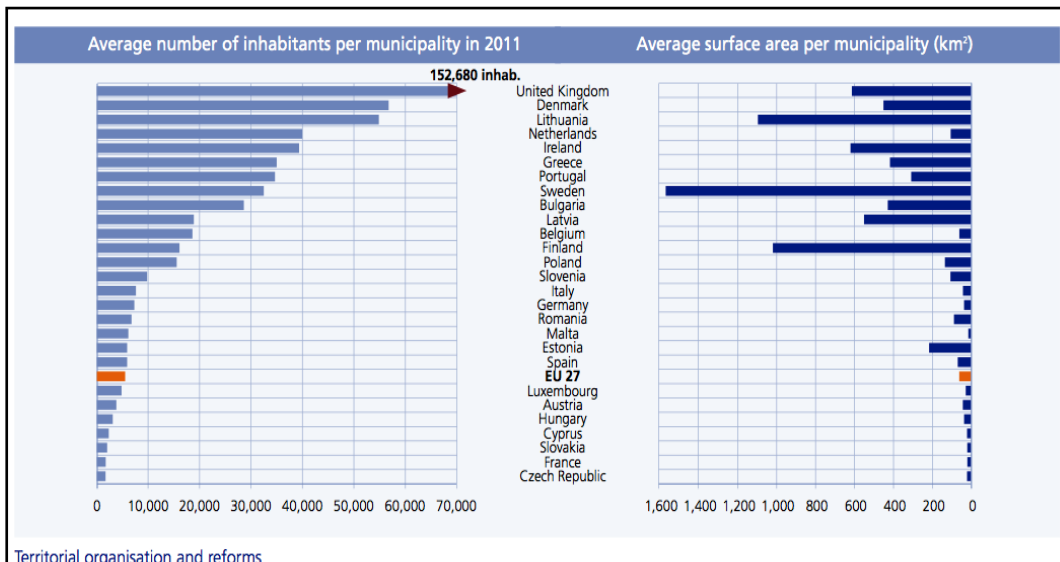


Figure 5 CEMR Subnational public finance in the European Union, 2011, Dexia

Institutional reforms in countries monitored by the Troika

Territorial reforms have been a key component for countries that have required a monetary bailout. 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

¹⁵Ibid

and institutional reforms ... to streamline territorial organisation and to reduce and optimise public spending through reinforcing decentralisation" CEMR (2012).¹⁶

"In Portugal, the current reform of local government is founded on the Green Paper published in October 2011 and the MoU with the Troika. It includes four parts: reform of local public companies, of territorial organisation, municipal/inter-municipal management and financial management as well as reform of local democracy. New competencies will be delegated by the State to municipalities and inter-municipal groups whose financial resources will be increased. Some 1,500 civil parishes (freguesias, administrative subdivision of municipalities), out of a total of 4,259, will be eliminated. A vote on the laws is scheduled for the summer of 2012." CEMR (2012)

"In Greece, the *Kallikratis reform*, adopted as part of the 3852/2010 law and operational since 1 January 2011, is both a territorial reform (merging municipalities, replacement of departments by regions) and institutional reform. The new municipalities were given more competencies and resources (personnel, grants), which are transferred by the State but generally inherited from the old departments (school transport, welfare, urban planning agencies). Thirteen new regions, including two "metropolitan regions", were created to ensure regional development primarily. The number of municipal companies should also plummet from 6,000 to 2,000. For its part, the central State set up new territorial organisation with seven administrative departments (*dioceses*)." CEMR (2012)

"In Ireland, the *Reforming Local Government* plan, which has been under discussion since the 2007 *Green Paper*, was resuscitated in the summer of 2012. It is part of the Programme for a National Government and aims to increase decentralisation. The goals of the reform are to strengthen local authorities' competencies, functions, leadership and financing mechanisms. Local councillors were consulted starting in June 2012 notably regarding the possible election of mayors through direct elections. Although, the project aimed at consolidating "regional authorities" seems to be on hold." CEMR (2012)

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

¹⁶Ibid, p. 7

3 Local Government Review

Three missions visited Cyprus from 25th September- 4th October 2013, 18-22nd November 2013 and 9-13th December 2013.

3.1 Mission 1

The purpose of the first mission was fact-finding, data collection and to hear the views of stakeholders. The team visited and interviewed a wide range of central government and local government officials and other stakeholders.¹⁷

The Cypriot Government presented their ambition for a comprehensive reform of their 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.

The 'Five Pillars for Reform' are in line with current wider 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 of 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.

¹⁷ For complete list see Section 6.3 Officials Consulted.

What we heard

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

- the size 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 Communities should remain
- the proposed new tier of local government was presented as an intermediate between central government and local government¹⁸
- 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 on decisions and individuals.

What we found

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 boards¹⁹
- some examples of voluntary cross-boundary collaboration and best practice in limited areas (eg 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:
 - finance tightly controlled from the centre of government
 - a highly centralised and inflexible human resources function
 - inflexible working methods
 - a lack of transparency

¹⁸ Refer to Section 4.4 Local Government Structure for discussion.

¹⁹ Refer to Section 4.2 Water Boards & Sewage Boards for discussion.

- little trust that central government and politicians are serious and engaged about change
- little sense of urgency
- weak civil society –little issue-based lobbying (users mediate through political parties).

What we learned

The experts also learned that:

- 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’ (ie 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)²⁰
- preserving local identity is important.

3.2 Mission 2

Decisions on the function, structure and financing of local government need to be considered as a package, since each one impacts on the others. As a starting point for this, it is essential to arrive at an agreed vision for Cypriot local government. In turn, this will allow a view to be taken on the roles of central and local government and on the decentralisation of powers and responsibilities to deliver specific services. The optimum structure will then follow function. This is an iterative and evolutionary process: for example, a more radical approach to restructuring will inevitably prompt revised thinking on service responsibilities.

Nevertheless, 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 entities to change the current arrangements. Therefore **the purpose of the second mission** was to create consensus around:

²⁰ See Section **Error! Reference source not found. Error! Reference source not found.** for details.

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

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

Methodology

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.²¹

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 the Cypriot Local Government²² was agreed upon:

‘The main purpose of democratically elected local government is to serve and represent citizens and local communities effectively and accountably²³.

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.’

Given the agreed vision,

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

²¹ For complete list see Section 6.3 Officials Consulted

²² In the current context

²³ In line with the European Charter on Self-Government

- 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.'

Given the agreed vision,

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.'

Given the agreed vision,

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.'

Key Blockers 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 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.

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 services.²⁴

Conclusions

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:

- the status quo is not an option - there too many small 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 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
- 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 (eg 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.

²⁴ Refer to Section 4.2 Local Government Functions

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.

3.3 Mission 3

In the course of Mission 3, the team met with the Permanent Secretary of the Ministry of Interior, administrative 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, MoH).

Focused interviews were held with officials from relevant departments, who were asked, with reference to the agreed vision, 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

Ministry of Interior

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

It is currently writing 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.

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.

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 is provided to local government to implement additional responsibilities.

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). Currently each District Office employs an average of 140 officials excluding hourly staff. 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.

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.

Specific services

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.

Details of proposed delivery of a range of services are outlined in Section 4.2, Local Government Functions.

Financial information, transparency and accountability

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 Communities.

Cross-cutting reforms

PFM Reform

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.

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).

A significant portion of the PFM reform has been underpinned with the passing of the so-called 'Umbrella' Fiscal Responsibility and Budget System Law (FRBSL) in January 2014²⁵. 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.

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 with the Ministry of Education and Culture, the Ministry of Health, and MANRE. It is envisaged that these three pilot ministries will strengthen their strategic planning, policy making, output budgeting, implementation and monitoring delivery capabilities by April 2014, so that they will be able to comply with the Umbrella Law starting from the 2015 budget cycle.
- c) During the second half of 2015 it is envisaged that local government will also comply with the Umbrella Law. As a minimum, the biggest Municipalities will need to:
 - prepare a strategic plan and a three year rolling activities plan and budget
 - synchronise their budget cycle with central government
 - report to central government on the implementation of their budget execution.

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 a local government based on:

- the responsibilities of the local government (Municipalities and Local Communities)

²⁵ Date to be confirmed.

- the services that the Municipalities and Local Communities need to deliver
- the financial resources that are needed for Municipalities and Local Communities to deliver these services effectively and efficiently.

Similarly, the Municipalities and Local Communities will need to account for their delivery against service priorities.

To manage the transition in an incremental way, one or two of the biggest municipalities have been encouraged to volunteer to pilot implementation of the Umbrella Law during the 2015 budget cycle.

HRM Reform

The HRM reforms will be aligned with the Umbrella Law's implementation. Indeed, for line ministries, SOEs (state owned enterprises) and local government to be able 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.

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.

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

Staff contributions to policy and programme objectives are reflected in the appraisal system. Discipline poor performers. Annual personnel performance appraisal process. Institutionalise checks on the performance ratings to ensure fairness and reliability.

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.

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

Conclusions

- overall there is a serious gap in performance monitoring, accountability and unwillingness to enforce legislation and/or standards in service delivery
- evidence of high levels of citizen frustration at certain services regarding the lack of voluntary co-operation (clustering), resulting in duplication of service delivery by nearby local authorities and poor use of scarce resources
- scope for de-centralising services currently performed by central government in the short and medium term in an organised and incremental way
- appetite from a number of the departments at the centre to apply a ‘risk management’ approach and standardisation to service delivery
- many different sectoral structures at district level that work independently, and with varying degrees of authority and autonomy
- recognition of the need to build capacity and strengthen systems and processes for delivery of de-centralised services
- managing the transition across the entire field of reform is very important
- broad consensus that the planned elections in December 2016 represent a key date for a programme of local government structural reform.

4 Findings and Recommendations

4.1 General

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 the previous section.

In broad terms, the issues can be summarised as:

- low capacity of local administration
- central government 'operates' rather than 'facilitates'
- lack of a 'citizen focused' approach.

In addition, broad issues around HR, PFM and organisational performance were identified, such as:

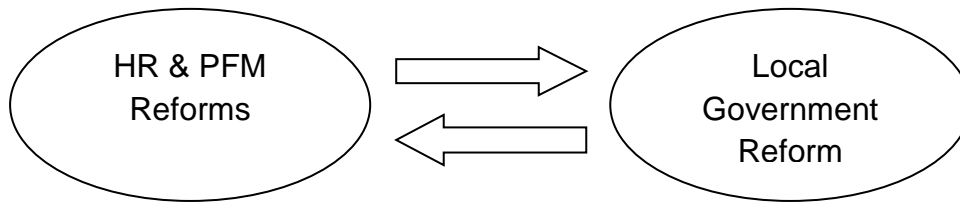
- lack of transparency
- absence of performance management
- inefficient service delivery
- lack of strategic vision
- limited culture of improvement
- financial information which is not standardised; absence of service level budgets
- lack of local accountability or monitoring
- lack of local government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

Many of these issues are also addressed at a generic level in the HRM and PFM Reports. The successful implementation of the HRM and PFM Reforms are essential for this programme of local government reform to realise the expected gains in:

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

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.

²⁶ Refer to section 3.2 Mission 2 for details.



Box 2: Two-way conditionality of HR, PFM and local government reforms

PFM

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

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.

The role of the Ministry of Interior will need to shift to:

- setting an overall strategy, policies, legal framework, guidelines and standards for local government activities, including its relationship with central government and citizens
- provision of 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
- monitoring 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
- providing 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.

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 the new local government structure. 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 might be transferred to local government.

The role and responsibility of line ministries vis a vis local government

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. 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 also requires substantial support from the Ministry of Finance to local government to implement the PFM requirements.

The relationship between central government and local government

As from 2016, local authorities are 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

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

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. 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.

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, though forms of collaboration and clustering between authorities are explored in the restructuring options discussed in Section 4.4 below.

HRM

As outlined above, successful implementation of the HRM reforms is instrumental in enabling central and local government to deliver on our recommendations by locating responsibility for managing human resources at the appropriate level in the delivery chain. In addition, HRM reform will impact positively on level and standards of services delivered to citizens by local government as they seek to address the following:

- key blockers identified by stakeholders (see Section 3.3, Mission 3) namely: undue influence of politicians over human resources; absence of a standardised code of conduct of appointed and elected officials; lack of a credible performance framework at central and local level
- consistency and transparency of an HR performance framework across the board, linked to implementing strategies and objectives and enhancing organisational and personal accountability
- capacity and capability issues by facilitating mobility of civil servants between line ministries, between local government and between different levels of government.

4.2 Local Government Functions

In this section, fourteen key local government services are considered 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.

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 4.4, Local Government Structure), 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.

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: establish Cultural Services as a separate Directorate reporting to the Minister or establish a Deputy Minister for Culture.

Transition

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

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 local schools cooperate with local authorities for public use of sports facilities. In general there is low 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 a) for better overview of projects and facilities, b) in order to benefit from economies of scale, c) improve the quality and quantity of sporting facilities provided over wider geographical areas, and d) tighter budget control.

Proposal

We need to develop a national sports strategy to define priorities, key facilities and the coverage of sporting facilities. Opportunity exists for local authorities to achieve efficiencies and economies of scale to implement the strategy by considering alternative service delivery vehicles for the provision and management of sport, such as transfer to organisations similar to Cyprus Sports Organisation with a reviewed mandate, or other methods such as transfer to not-for-profit organisations or outsourcing.

Transition

We recommend an immediate transfer of responsibility to the dedicated Directorate or Office in the Ministry of Education to define a national strategy, related policies and delivery mechanisms, in cooperation with the Cyprus Sport Organisation and representatives of local government.

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. The extent of their involvement would be clarified in the future.

Transition

With training from the Department of Environment, responsibility will be handed over to Municipalities as soon as possible, while Local Communities will take this on when 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, programs and guidelines for the implementation of the European Union legislation and policy regarding food safety and hygiene.

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 the water of public swimming pools and bathing water at the seashore, 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 exclusive to their competency, 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, ten of the larger Municipalities currently perform food safety and hygiene controls in cooperation with M&PHS. These are Nicosia, Limassol, Larnaka, Strovolos, Lakatamia, Engomi, Yermasoyia, Paralimni, Ayios, Athanasios and Pafos. Their inspections are limited to restaurants, cafes, taverns, night clubs/discos/cabarets/bars, pizzerias, takeaways, canteens at sport establishments, temporary stations selling food, mobile canteens selling food, vending machines, kiosks and mini markets.

Pafos Municipality also has authorisation for performing food hygiene controls, but after weaknesses encountered in its performance, the Municipality's powers were limited to the above mentioned areas, with the exception of restaurants, cafes, taverns and mini-markets.

Criteria

It is imperative that this task 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 can be picked up by 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 above Municipalities.

Finally co-ordination of inspections needs to be improved. Currently multiple inspections on one site are common and constitute wasted resources for both the

central government who pay the inspectors and the public buildings whose work is interrupted for inspection.

Proposal

Due to the importance of the task performed, the Department for Medical and Public Health Services should be required to establish a National Strategy and Strategy for Hygiene Inspections. This will incorporate a comprehensive Monitoring System requiring local government to implement the controls in an effective, consistent and harmonised way, based on national standards, and to report their activities consistently to central government.

Ten of the large Municipalities already perform this function. Over time we envisage the complete transfer of routine hygiene inspections to local Authorities, but only once sufficient capacity to perform the task has been established. Technical and specialist tasks (e.g. laboratory work) shall remain at central government level, as this will be more cost-efficient.

Transition

In the early stages of transition, responsibility and implementation of the Inspections will remain the responsibility of the 10 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.

Coordinating and rationalizing the number of inspections and licensing visits with more focus on the client will also be explored.

In the medium term the establishment of a comprehensive Food Safety Authority is being considered. This will be responsible for:

- formulating strategy and developing policy for food safety
- coordinating the design of multi-control programs required by the European Union and national program coordination (official controls by the competent services) and monitoring of these programs
- coordinating the various activities of the competent authorities for the implementation of the food law in order to avoid duplication of work or gaps
- assessing the adequacy of the controls carried out by competent services
- carrying out risk assessment related to food, risk management and disclosure of information to the competent authorities and, where necessary consumer information
- assessing the effectiveness of preventive policy, corrective/improvement measures and related approaches
- raising awareness and informing the public on matters of food safety
- communication and collaboration with similar authorities of the European Union, in particular with the European Food Safety Authority.

-DRAFT-

In addition it is been noted that, for the successful operation of the health inspections system at local level, mobility for local inspectors should be introduced.

Landscaping of Government Buildings

Landscaping 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 and design is currently outsourced either to the Department of Forests or the private sector through long term 'Design, Build and Maintenance Contracts' (PPP Projects).

Criteria

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

In their responsibility over central government buildings, Public Works Department are accustomed to a certain level of influence over the premises.

This service links to broader landscaping tasks the Department of Forests proposes to transfer to local authorities.

Proposal

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

Transition:

The transfer should take place as soon as possible. The Forestry Department would be willing to provide standards and technical knowledge when required.

Landscaping of Roads (central reserve/median, roundabouts and roadside planting)

The landscaping 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 dilutes 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 road landscaping and maintenance duties, of rural and urban roads under their jurisdiction, to local authorities.

Maintenance of the main highways will remain the responsibility of the Forestry Department.

Transition

In the short term maintenance will be transferred to Municipal level as soon as possible, while Local Communities will take this on when sufficient capacity is established.

Parks

Parks are a matter of land use and designation. If an area is declared forest land, by law it is under the jurisdiction of the Department of Forests.

In the national parks the Department maintains the green areas, manages the forest, provides recreation to the public, and maintains the flora and fauna of the park. It also manages any environmental issues, and enforces regulations the public should follow within 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.

Public Order and Traffic Offenses

Description

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.

Public Order

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 which can be enforced more efficiently and effectively by local authorities.

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

*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 smaller offences that consume time and affect many people are regulated by local authorities, 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 the Municipalities and Community Councils must agree to the above powers and, for the sake of uniformity and consistency, commit to addressing the same offences.

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 of them is executed 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 done in cooperation with villages/Communities)

Cleaning

Within built-up areas, cleaning of roads is the responsibility of the 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 by law, in practice these duties are performed by the central government through the District Offices. Therefore, currently central government is responsible for the construction and maintenance of all roads.

Broad Criteria

European trends consistently keep the national grid under central government control and maintenance. However responsibility over secondary and tertiary roads are predominantly allocated to local government, with regard to both cleaning and maintenance.

Proposal

We propose the transfer of cleaning and maintenance of secondary and local networks to local government.

In the long-term we envisage a transfer of more responsibility for road planning and construction from central government to local government for tertiary and secondary roads.

In the long-term we envisage:

a) a complete transfer of road planning, designing and construction from central government to local government for secondary rural roads

and

b) 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 roads in built-up areas. The construction of these roads can also be transferred from central to local government.

Transition

In the short term maintenance and construction will be transferred to Municipalities, while Local Communities will take this on when sufficient capacity is established. It is worth emphasising again that adequate capacity will be developed once the new structure of local government is chosen.

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 additional economic benefits 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).

Some authority for everyday operations should be delegated to schools. Already schools governing boards retain their own budget for dealing with minor issues. This could be increased to reflect the extra responsibilities to be delegated (i.e. small repairs, minor equipment purchase, etc). On the other hand, decisions on purchasing of products and services should not be among these responsibilities to be delegated, since School Boards benefit from economies of scale for these. A single school could not achieve same terms as a School Board negotiating for 80 schools.

Proposal

We propose to consolidate the number of school boards by aligning them with the new local government structure.

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 within which individual schools can commission goods and services e.g. minor repairs and cleaning and support staff. Thus day-to-day decisions and

accountability can be delegated to schools themselves, 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 will be reduced 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.

In principle, we give preference to this recommendation in the transition period, but the final number of School Boards will reflect the local government structure chosen.

Town Planning (Development Plans)

Development Plans (town planning) and issuing relevant permits are the responsibility of the Ministry of Interior, specifically the Department of Town Planning and Housing, the 5 offices of the Department based in central towns, as well as Public Works Department (Ministry of Communications and Works).

These can be divided into:

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:

- a) Planning permits are issued by
 - Ten Planning Authorities (Director of Town Planning Department, five town Planning District Offices and four Municipalities - Limasol, Larnaca, Pafos and Nicosia)
 - Council of Ministers

- b) 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 need for this body to be politically accountable, e.g. comprised of a board that will include more elected representatives.

Proposal

In principle we support the Municipalities' suggestion to create a single Town Planning Authority in each province.²⁷ 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.

1. 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).
2. 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

In the short term we envisage that these responsibilities would be transferred to the remaining Municipalities, while Local Communities will take this on when sufficient capacity is established to carry out planning functions.

²⁷ In 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.

Traffic Management

Currently, some Municipalities and Community Councils issue Traffic Regulations, but this is not done consistently by all local authorities. Additionally, there are some traffic offences that are not included in these Regulations, and they should also be transferred to Municipalities and Community Councils. Where local authorities do not perform this task, the Police regulate traffic offences.

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.

These Traffic Regulations constitute minor offences that can be handled by Municipalities and Community Councils.

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:

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.

Transport

Public transport is under the Road Transport Department, in the Ministry of Communication and Works. The Public Works Department arranges all consultation on issues around local roads, traffic management and routes. Construction is then contracted out to the roads department. Overall there is good cooperation between Government Departments, Municipalities and bus companies.

Currently, the contract for busses running within municipalities and between municipalities and communities is extremely rigid, has been agreed for a period of ten years and cannot be changed. The Mayor of Nicosia for example has no control over the existing bus routes in his Municipality, as they are contracted to the Ministry of Communication Works.

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 community individually but should be planned, contracted and managed on a greater scale.²⁸

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. A master plan is currently being written with regard to transport, which will be implemented in co-operation with Municipalities. It will be instrumental in supporting this shift in approach.

We also propose an examination of transport contracts. Although the ten year bus contract is set to take into account numerous parameters (including e.g. the need to depreciate the necessary investments), we feel a ten year bus contract reduces the scope for innovation or adjustments to shifting needs.

Transition

For the long term we propose to examine ways local choices can work in cooperation with the central plan, which will then become more effective by reflecting local preferences.

²⁸ We have been made aware of the issue of PPT infrastructure by the RTD. The final report will consider this project in greater detail, since currently do not have sufficient detail.

Waste Management and Pollution Control

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 a lack of integrated management techniques or innovative technology solutions.

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 all waste collection is handled by local government.

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 increased 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. Initially this will be transferred to Municipalities, and in turn to Local Communities once sufficient capacity has been established.

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 Wastes could also be included.

Transition

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 is been noted that for pollution control, at the moment, it is only the Municipalities that can take the above mentioned additional responsibilities and for this 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 Larnaca); 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. One way of doing so quickly would be to extend the areas of existing Boards into adjacent Municipalities and Communities."

Transition

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

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. This will involve co-operation between Municipalities, and will 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 there should be:

- (1) the transfer of responsibility for volunteering, from the community councils to these new local authority entities
- (2) the reorganization of existing services in larger areas, to achieve better performance and more efficient use of resources, and
- (3) the specialisation of certain 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 private and public buildings will be transferred from the Public Works Department to local government. Initially this will be transferred to Municipalities, and in turn to Local Communities, once sufficient capacity has been established.

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 communities, 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.

4.3 Sectoral recommendations

Particular services in the 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.

Our recommendations, as outlined above in Section 4.2, Local Government Functions, agree with the individual sectoral report recommendations, which propose:

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

MANRE - Water Boards and Sewage Boards

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

MoH - Health 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

4.4 Local Government Structure

In the course of the 3 missions, several options for reform of the structure of local government were developed by the experts and discussed in general terms in the workshops. These new structural options are discussed below.

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

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.

An indication is given of how new bodies would arrive at their staffing and budgets, together with the cost and practicability of change. Limited financial information is available - and all at the level of organisational units rather than the level of services. 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 again 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.

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. 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. 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.

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.

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.”²⁹

Box 3: Lessons from Ireland

Option 0 – existing local government structure

Option 0 represents the existing structure of local government in Cyprus. It consists of 39 municipalities in urban areas (nine of which are within the occupied area) and 487 communities in rural areas (350 in the area controlled by the government and 137 in the occupied area). 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 communities; there is also considerable variation within the groups of municipalities and communities on powers, responsibilities and budgets.

The existing structure of local government is highly unusual in international terms. There is a very large number of authorities, too many of whom lack the scale and capacity to meet the aspirations set out in the agreed vision and to exercise the agreed rights and responsibilities. Scale and capacity in this context includes adequate numbers of staff with the right skills, a sufficient tax base to finance services, and other factors which contribute to achieving economies of scale.

There is evidence of collaboration amongst both municipalities and communities. However, this is neither widespread nor in-depth. It does not provide a compelling case that existing models of collaboration can overcome the significant barriers presented by a highly fragmented structure.

As a consequence of shortfalls in capacity, significant services are carried out by central government (through District Offices), particularly in rural areas. This results in services delivered by organisations which are remote from local citizens and an absence of direct local accountability. Again and again we have heard a demand for more efficient and effective services, to meet modern standards, which are provided by democratically elected local government. The current structure is clearly not fit for purpose to meet these aspirations.

We therefore conclude that the status quo is not an option. It does not meet the aspirations for shared Cypriot local government, nor the pressures for reform that we have set out.

We have therefore identified a number of options for structural reform and discuss these in turn below.

²⁹ *Putting People First Action Programme for Effective Local Government*, 2012, Department of the Environment, Community and Local Government, p. 46

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 communities. We understand that central government is interested in this option and that the intention is that there are 5 new second tier local authorities, whose boundaries are aligned with those of the central government District Offices. We assume that powers and responsibilities will be drawn both from existing District Offices and from municipalities and communities. We understand that over time the political composition will be a mixture of nominated members from municipalities and communities and directly-elected members. How these new bodies will be financed is unclear, though we assume that resources will be transferred from District Offices, municipalities and communities.

Option 1 introduces additional public sector bodies with a remit which is currently unclear. This potential duplication is likely to lead to a lack of clarity and disputes between different local authorities over service provision. This will impact negatively on community engagement and accountability.

We would expect this option to have net costs - both on a one-off and an on-going basis. Improvements in value for money may be gained through economies of scale by delivering services through larger structures, but the cost of doing so is unlikely to be offset by savings realised in municipalities and communities.

Option 2 – restructuring Municipalities and Communities

Option 2 involves large scale restructuring of existing municipalities and 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 a complicated or extended.

Our initial view is that cities and larger towns should be represented by a single local authority (rather than, for example, the 10 municipalities in Nicosia). In rural areas, larger numbers of communities should be merged to form local authorities of similar size (by population). Their boundaries should be fixed, taking into account economic, social and environmental factors such as economic units and travel to work areas, matters of local or regional identity and the geography of the island.

The powers and responsibilities of these new bodies would be decided in the light of recommendations in Section 4.2 Local Government Functions above. Their financial resources would be drawn from those of existing local authorities, together with transfers from District Offices and central government departments (to match the transfer of new responsibilities).

This option is a consolidation of the existing structures. Provided the resulting entities are large enough, they should deliver reasonable capacity and economies of

scale. Equally, accountability is clear and there is no reason why community engagement should be adversely affected, compared with the current arrangements.

We would expect there to be one-off costs to deliver the mergers, offset by on-going savings. The savings are unlikely to be as great as for Option 3 below. There are also substantial obstacles in creating functioning bodies out of a very large number of small communities, with no existing core to build on. There will be costs associated with this.

Option 2a – clustering Municipalities and Communities

Option 2a involves large scale clustering of existing municipalities and 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.

Voluntary clustering seems unlikely to deliver optimal structures within a reasonable timescale. Therefore, we assume that the boundaries of clusters should be set by central government, in consultation with local government, or by an independent body.

Clustering can provide savings in the costs of service provision. However, there are substantial problems of complexity, governance and accountability.

Upfront costs may be less than for mergers, but the on-going savings will also be less, because of failure to eliminate overheads (eg senior management and democratic costs - see above).

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 communities within their areas.

The powers and responsibilities of these new bodies would be decided in the light of recommendations in Section 4.2, Local Government Functions above, but would clearly constitute at the very least, the powers exercised by existing District Offices and municipalities and communities, throughout their entire area. Their financial resources would be drawn from those of existing District Offices and local authorities, together with transfers from central government departments (to match the transfer of new responsibilities).

Option 3 is the most radical considered, with the greatest potential gains. It resembles Option 1, but without the existing municipalities and communities. The staff transfers from central government (District Offices) to local government depend on flexibility delivering through the HRM reforms.

This option certainly delivers the capacity needed to take on significant responsibilities and promote value for money. While accountability is clear, mechanisms will be needed to ensure strong community engagement. In urban areas, Municipalities will have existing mechanisms that can be adapted; it may be that the network of existing Communities can evolve to provide this in rural areas.

We would expect there to be one-off costs in establishing these new bodies, offset by on-going savings. The practicality of the transition to this new structure is substantially eased by the fact that there is a core to build around, in the form of District Offices.

Discussion of Options

The table below is a SWOT analysis of the options above.

Name	Description	Strengths	Weaknesses	Opportunities	Threats
Option 0	The Status quo	Known system, already financed. LG resources targeted on major population centres. Clearly defined community representation.	Insufficient scale and capacity (number and skills of staff; tax base) to meet agreed vision and exercise rights and responsibilities and implement PFM.	Limited success with voluntary clustering.	Declining government grants. Increase in LA debt. Increased demand from citizens for more efficient and effective services.
Option 1	The 'second tier'	Universal Coverage.	Unclear remit. Duplication of functions. Additional layer of complexity and bureaucracy. Additional costs not offset by savings or increase of effectiveness and efficiency of services to the citizens. Counter to current LG trends in Europe.	Could offer economics of scale. Could be a transition to more streamlined structure in the future.	Declining government finances. Increase of amount of total LA budget to serve structure rather than services. Citizens suffer from possible disputes over responsibilities for service provision.

Option 2	Impose merging of Ms and Cs to a total of 10 metropolitan areas. Very large measures, e.g. 50 Cs to 1 rural LA with equal powers and capacity to urban authority. Discussed in one of the workshops.	Distribution of services throughout local authorities. Increased capacity and economies of scale – able to meet the vision and implement rights and responsibilities of local government as well as PFM requirements. Clear level of accountability. Increased coherence and integration of services and local planning. Financed through existing LA resources, and transfers from district offices and line ministries. One off costs are offset by ongoing savings.	Creating functioning bodies from large number of small communities without a core to build on. Falls short of realising full potential gains of restructuring	Transition to a more streamlined structure. District Offices' capacity transferred to local government level.	Problems or delays with agreeing new structural boundaries. Shortfall of capacity in rural areas might negatively affect efficiency and effectiveness of services to the citizens
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<p>Option 2a</p>	<p>Impose clustering of services - possible transition to Option 2</p>	<p>Closer to the current approach hence least disruption</p>	<p>No self evident cluster model to guide change. No clear gains other than economies of scale in particular services delivery. Limited capacity - not able to meet the vision and implement rights and responsibilities of local government as well as PFM requirements. No improvement in governance and accountability</p>	<p>Modest economies of scale. Experience of co-operation between LAs.</p>	<p>Problems or delays with agreeing new structural boundaries. Issue with sustainability of clusters. Insufficient reform to foster significant efficiency and effectiveness gains for the citizens.</p>
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<p>Option 3</p>	<p>5 newly elected authorities.</p>	<p>Delivers capacity to support decentralisation – HRM, PFM, vision of local government and rights and responsibilities of local and central government. Built around the structure of district offices. Delivers economy of scale. More ‘equal’ quality of services throughout local authorities and the territory. Clear level of accountability. Coherence and integration of services and local planning. Financed through existing LA resources, and transfers from district offices and line ministries. Increased spent on services rather than structure. One off costs are offset by ongoing savings. In line with European trends.</p>	<p>Transition time and disruption during transition. Less immediate community engagement and representation</p>	<p>Most appropriate vehicle for meeting decentralisation aspirations and crosscutting and line ministries reforms. Realisation of the vision by creating capable and sustainable local government authorities. Could secure community engagement through Community Councils (but without direct spending/operational responsibilities). Substantial improvements in governance and accountability. Biggest return on taxation for the citizen.</p>	<p>Municipalities work could be disrupted during re-allocation of functions.</p>
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Figure 6 SWOT Analysis of Restructuring Options

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

- 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.

For this reasons, and based on the analysis above, we favour Option 3 – 5 new local authorities, based on District Office boundaries, and drawing on the functions of existing District Offices, Municipalities and Communities. Under this model Municipalities and Communities would cease to exist and District Offices would shrink considerably, to provide only the essential functions of a regional network for central government. Staff and financial resources would be drawn from the existing structures.

Citizens would benefit from more modern, uniform and efficient service provision, with mechanisms to ensure continued community engagement.

Short of this, Option 2 provides a feasible way forward, which is an advance on the current situation but which is likely to under-perform compared to potential, in the medium term.

4.5 Finance

We have been given financial information which relates to the provision of local services, both by District Offices and by local authorities. This is set out below, together with an indication of how this work should be taken forward.

District Offices Financial Summary 2011 and 2012

The income and expenditure totals for 2011 and 2012 for the District Offices are in Table 1 and Table 2 below. Income increased by 1 %; in contrast expenditure reduced by 15 %.

District Offices	Income and Expenditure 2011
Income	€28,240,231
Expenditure	€183,014,640
Expenditure less income	€154,774,409

Table 1 District Offices Income and Expenditure Summary 2011

District Offices	Income and Expenditure 2012
Income	€28,532,948
Expenditure	€160,660,362
Expenditure less income	€132,127,414

Table 2 District Offices Income and Expenditure Summary

District Offices Expenditure

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 Table 3).

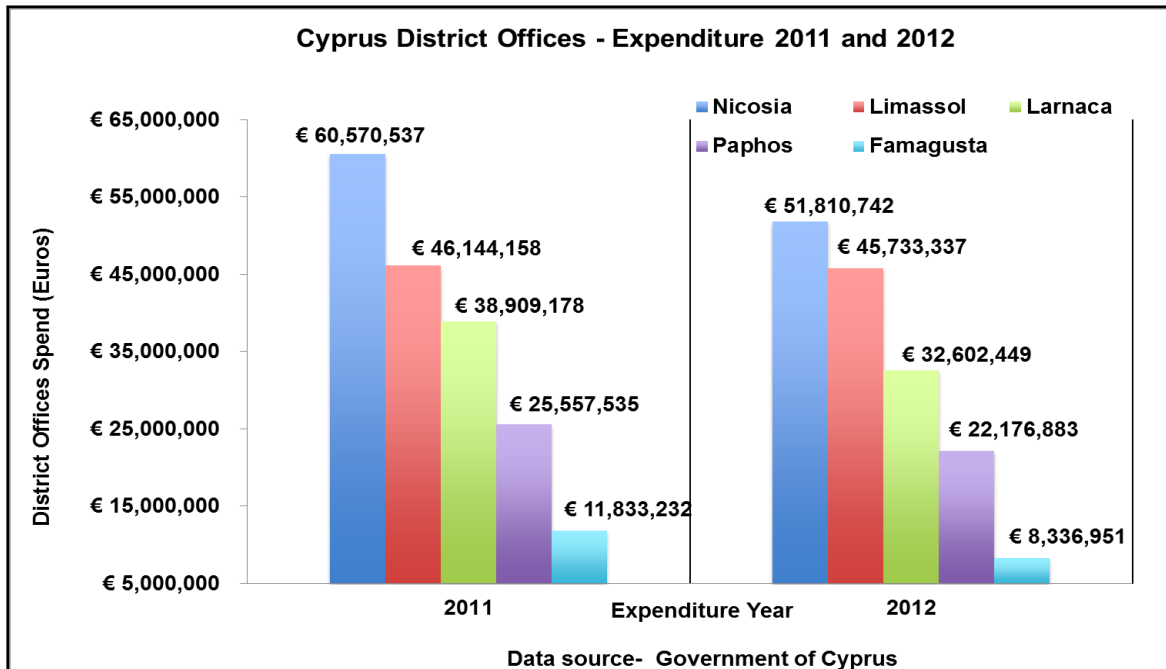


Table 3 Expenditure per District Office 2011 and 2012

Expenditure reduced in 2012 compared to 2011 for each of the District Offices. The level of reductions is most pronounced for Famagusta at 39 %, Larnaca 16 % and Nicosia at 14 %. Paphos saw a decrease of 13 % with Limassol's expenditure reducing by less than 1 %.

The following gives a detailed breakdown of financial data for each District Office for the fiscal year 2012. The population sizes used in calculating spend per head are in Table 4.

District Offices	Population
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	(Census 2011)
Nicosia	326,980
Limassol	235,330
Larnaca	143,192
Paphos	88,276
Famagusta (unoccupied)	46,629
Total Population (Excluding occupied area)	840,407

Table 4 District Offices population

District Offices Expenditure per Head

The spend per head of population for each District Offices varies from €251 for Paphos to €158 for Nicosia. The average spend per head is €202.

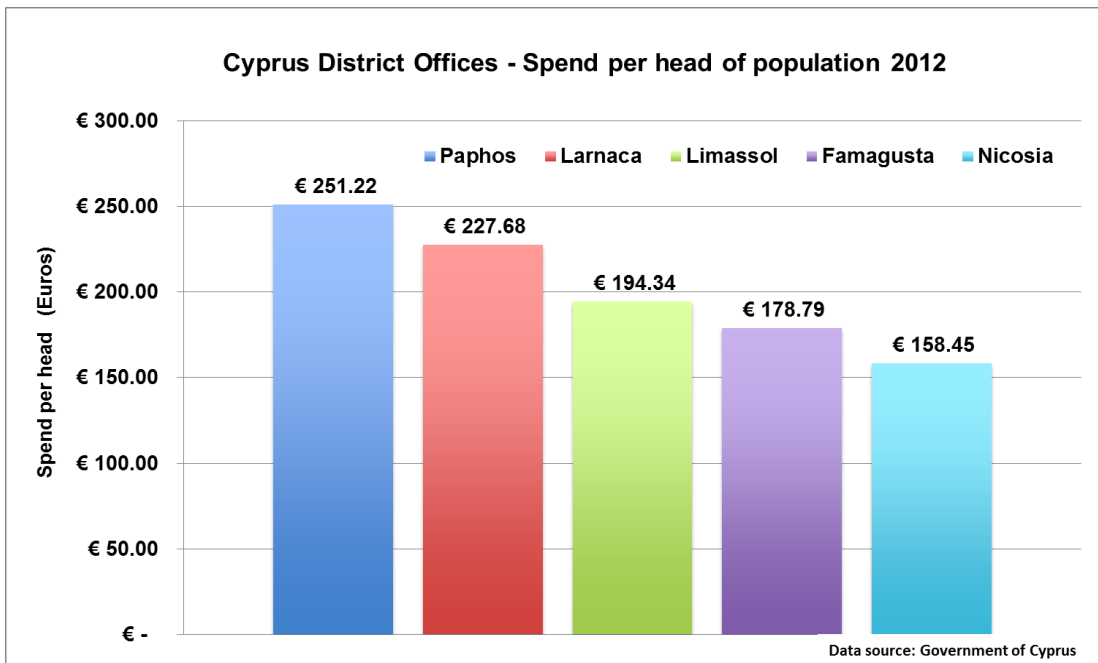


Table 5 District Offices: Spend per head of population by district office 2012

Variations in spend per head can be used to illustrate potential efficiency savings. For example, Table 6 shows the effect if the spend per head of Paphos and Larnaca were to move to the national average spend per head of €202.

District Office	Expenditure	Potential Savings	% Expenditure Reduction
Paphos	€17,840,765	€4,336,118	19.55%
Larnaca	€28,939,103	€3,663,346	11.23 %
Total		€7,999,464	

Table 6 Potential Expenditure reduction by moving to average spend per head

Municipalities Financial Summary 2012

Financial information including income, expenditure and cash flow statements for all Municipalities and Communities was requested. Due to time constraints not all of the requested information has been made available. The financial data provided by Municipalities enables some analysis of financial performance. However the data is not sufficiently detailed at the level of services which are provided, to enable meaningful conclusions to be made. Further detailed information will be needed to explore the cost of services further.

Central Government Funding - Municipalities

Central Government Funding
<ul style="list-style-type: none">• Grants are proposed by the Council of Ministers and approved by the House of Representatives
Municipalities Annual State Grant Formula
<ul style="list-style-type: none">• 1/3 of overall grant divided equally amongst 30 Municipalities• Grant is allocated from the Ministry of Interior directly to the Municipalities• 2/3 of overall grant is distributed based on the number of voters• Each Municipality decides how to allocate its approved budget
Development Projects (Additional Grant)
<ul style="list-style-type: none">• Allocated on a project by project basis• Contribution ranges between 67% - 75% of overall project cost

State Grants - Municipalities

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

Table 7 Annual State Grant and Compensations 2009-2013

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). (See Table 8 for details).

Group 1	Population (Census 2011)	Group 2	Population (Census 2011)
Nicosia	55,014	Lakatamia	38,345
Limassol	101,000	Aglantzia	20,783
Larnaca	51,468	Kato Polemidia	22,369
Paphos	32,892	Mesa Yitonia	14,447
Stovolos	67,904	Ayios Dometios	12,456
		Egkomi	18,010
		Aradipou	19,228
		Ayios Athanasios	14,437
		Paralimni	14,963
		Yermasoyia	13,421
		Derynia	5,844
		Idalion	10,466
		Athienou	5,017
		Ayia Napa	3,212
		Peyia	3,953
		Lefkara	762
		Yeri	8,235
		Sotira	5,471
		Tseri	7,035
		Polis Chrysochous	2,018
		Latsia	16,774
		Yeroskipou*	7,878
		Ypsonas*	11,117
		Livadia*	7,206
		Dromolaxia-Meneou*	6,689

Table 8 Municipality populations 2011

* Financial analysis does not include data from these Municipalities as data was not available.

Group 1 Municipalities Financial Summary

Group 1: Income and Expenditure 2012	Total
Income	€129,285,208
Expenditure	€132,051,026
Surplus/Deficit (excluding pension liabilities)	€ -2,765,818
Surplus/Deficit (including pension liabilities)	€-27,764,823

Table 9 Group 1 Municipality Financial Information for 2012

Group 1 Municipality Sources of Income 2012

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).

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. Whilst the top three sources of income described above are a combined total, it does not mean this is applicable equally to individual Municipalities. For example the Municipality of Paphos' second largest source of income is from water supply services (see Table 10).

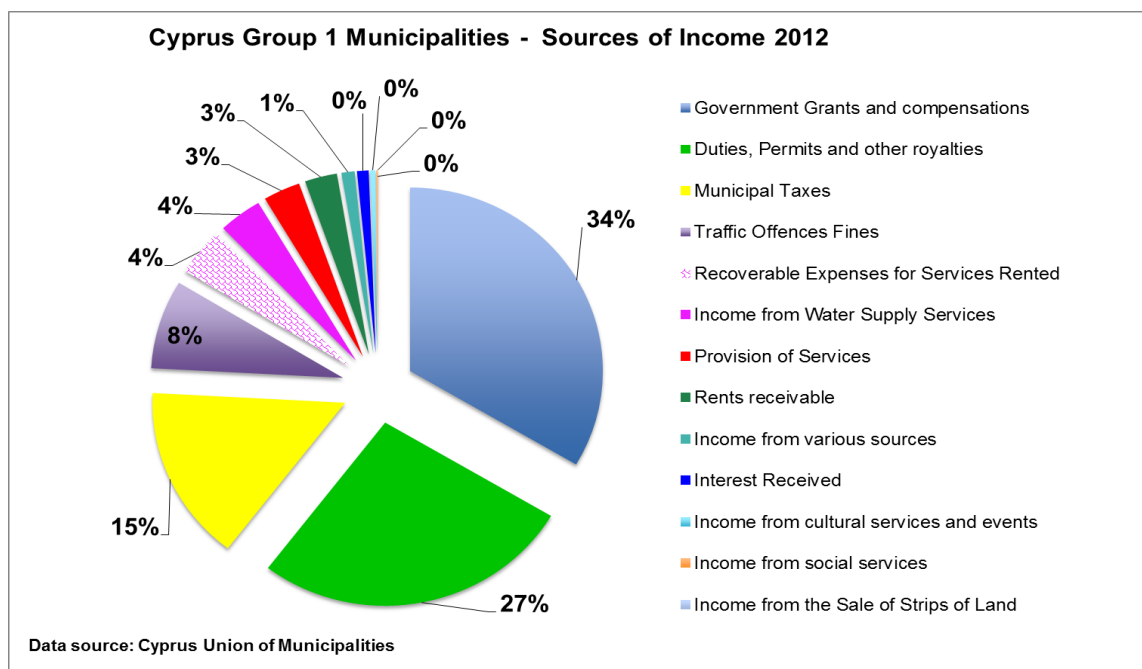


Table 10 Group 1 Municipalities: total income broken down by % source 2012

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

The average tax per head of population for Group 1 Municipalities is shown in Table 11.

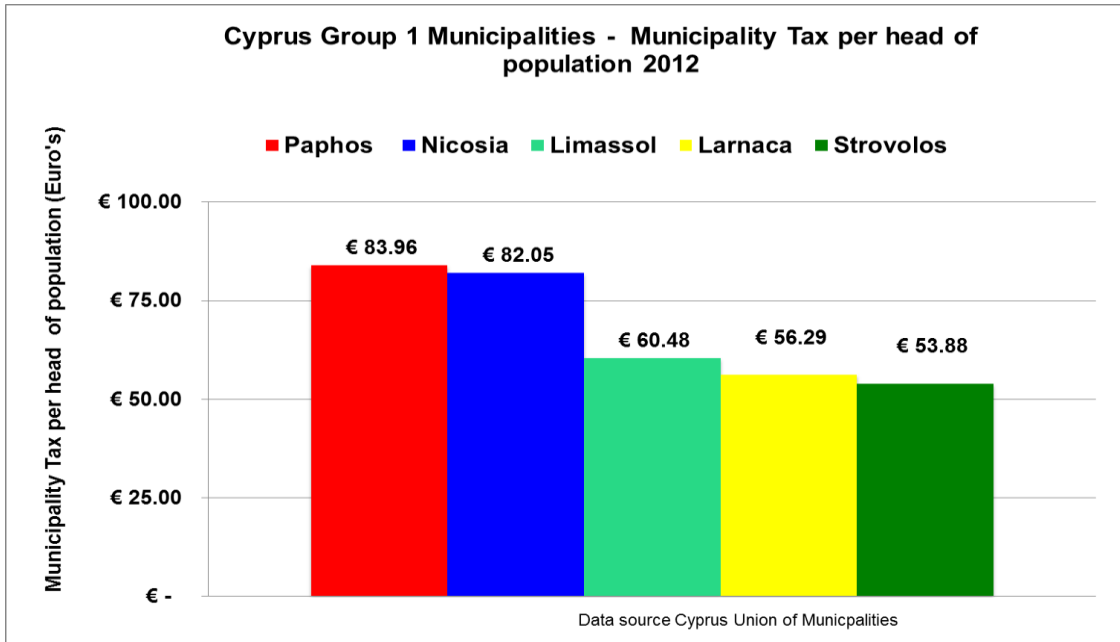


Table 11 Group 1 Municipalities: Municipality tax per head of population 2012

Group 1 Municipalities Expenditure 2012

Group 1 total expenditure for 2012 was €132,051,026 (excluding pension liabilities). The main source of expenditure for this group is payroll (salaries and wages) which accounts for €65,463,867 of total spend and represents 50% of total annual expenditure (See Table 12).

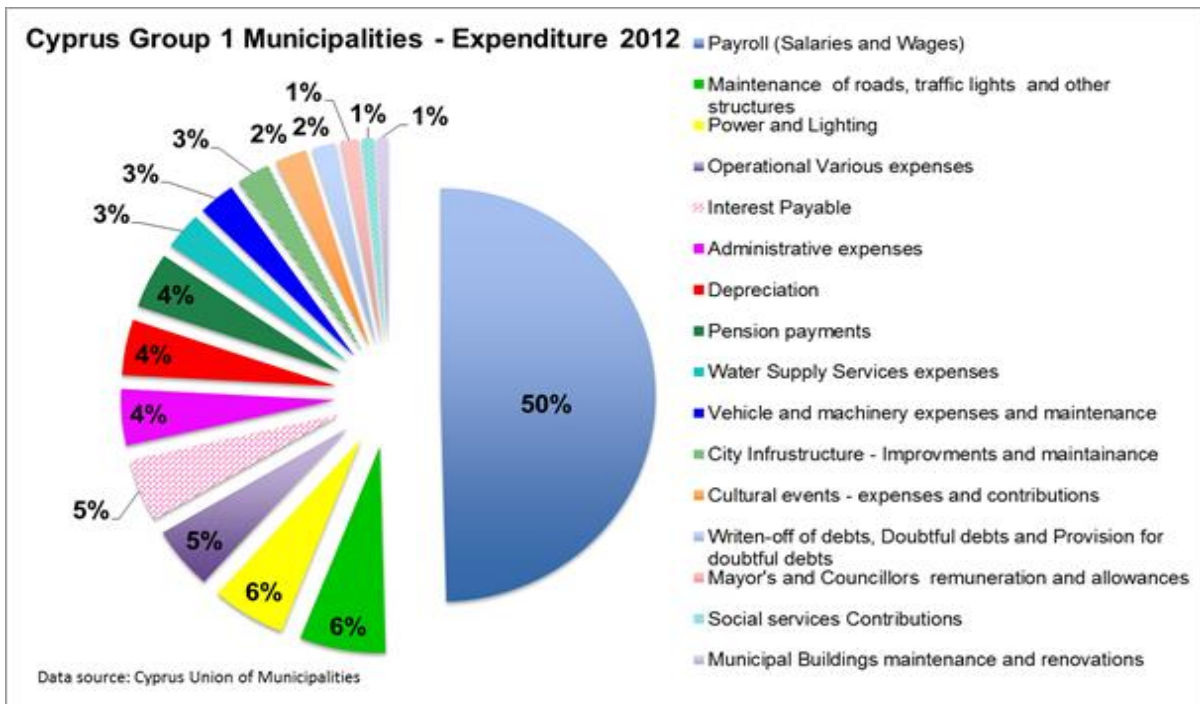


Table 12 Group 1Municipalities: total expenditure broken down by % spend 2012

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

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 1 Municipalities Expenditure per Head

The expenditure per head of population has been calculated using total expenditure (excluding pension liabilities) divided by total municipality population. This ranges from €617 for Paphos to €273 for Strovolos (See Table 13).

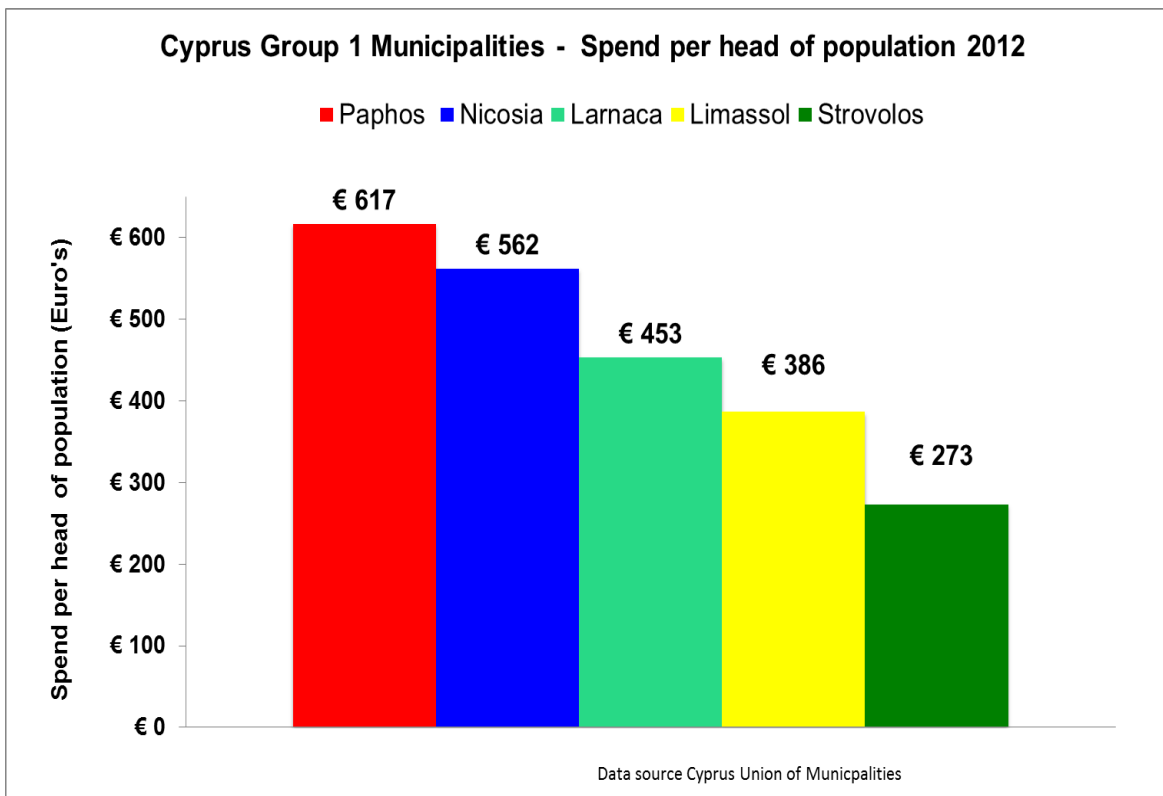


Table 13 Group 1 Municipalities: spend per head of population

Variations in spend per head can be used to illustrate potential efficiency savings. For example, Table 14 shows the effect if the spend per head of Paphos and Nicosia Municipalities were to move to the national average spend per head of €458.

Municipality	Expenditure (based on average spend per heard of €458)	Potential Savings	% Expenditure Reduction
Paphos	€15,063,461	€5,229,828	26%
Nicosia	€25,196,412	€5,721,456	19%
Total		€10,951,285	

Table 14 Group 1 Municipalities potential expenditure reduction by moving to average spend per head

Group 2 Municipalities Financial Summary

Group 2: Income and Expenditure 2012	Total
Income	€115,820,766
Expenditure	€121,764,829
Surplus/Deficit (excluding. pension liabilities)	€-5,944,063
Surplus/Deficit (including pension liabilities)	€-6,118,180

Table 15 Group 2 Income and Expenditure 2012

Group 2 Municipalities Sources of Income 2012

The income for 2012 for Group 2 Municipalities was €115,820,766, of which the Municipality of Paralimni generated the largest amount (€15,387,671) and Lefkara the least (€1,164,750).

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 represents 16% of overall income (see Table 16).

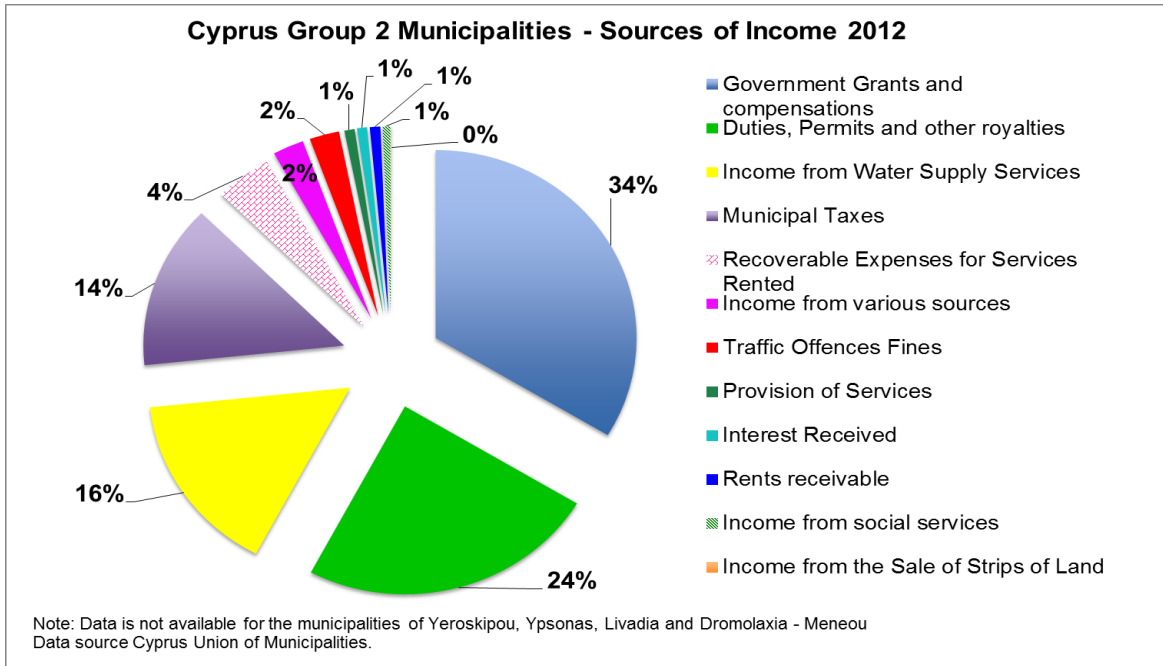


Table 16 Group 2 Municipalities: total income broken down by % source

The average tax per head of population for Group 1 Municipalities is shown in Table 17.

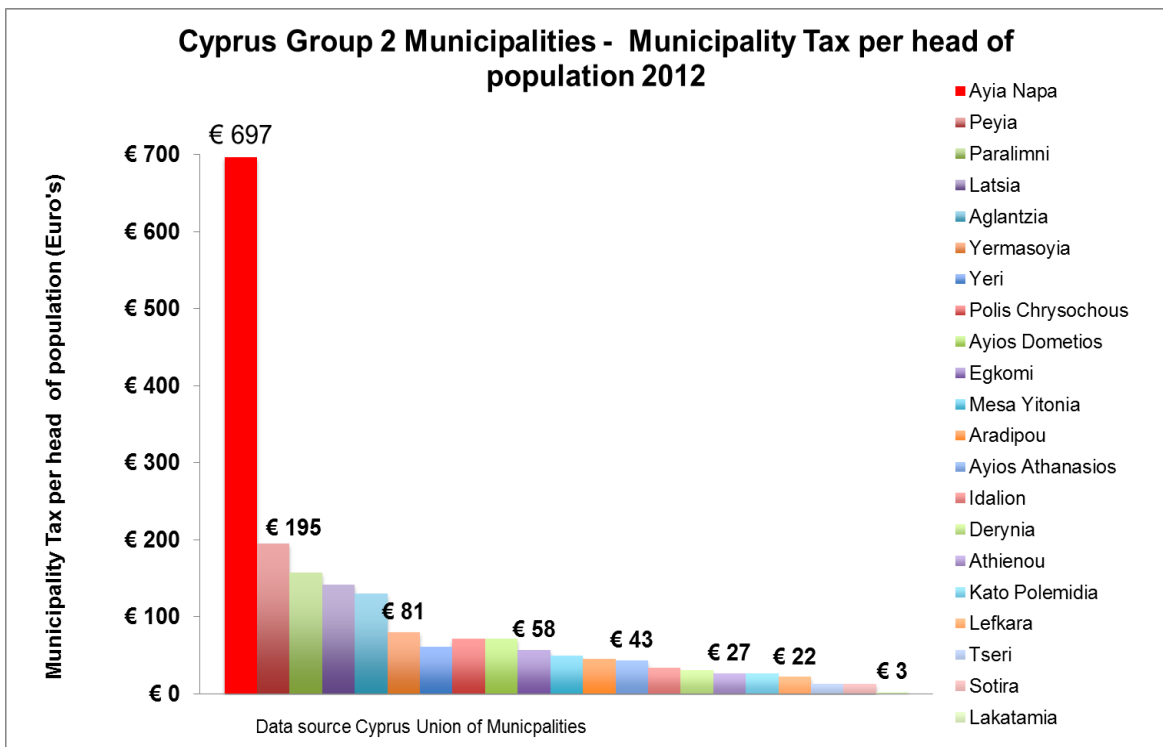


Table 17 Group 2 Municipalities: Municipality tax per head of population

Group 2 Municipalities Expenditure 2012

The total expenditure for 2012 was €121,764,829 (excluding pension liabilities). The main source of expenditure for this group is payroll (salaries and wages) - 37% of budget in 2012.

10% of the expenditure budget was spent on water supply services, which is the second largest spending area. Although the amount is significant, the income generated from water supply services is greater than the spend enabling the proceeds to fund other priorities. (See Table 18).

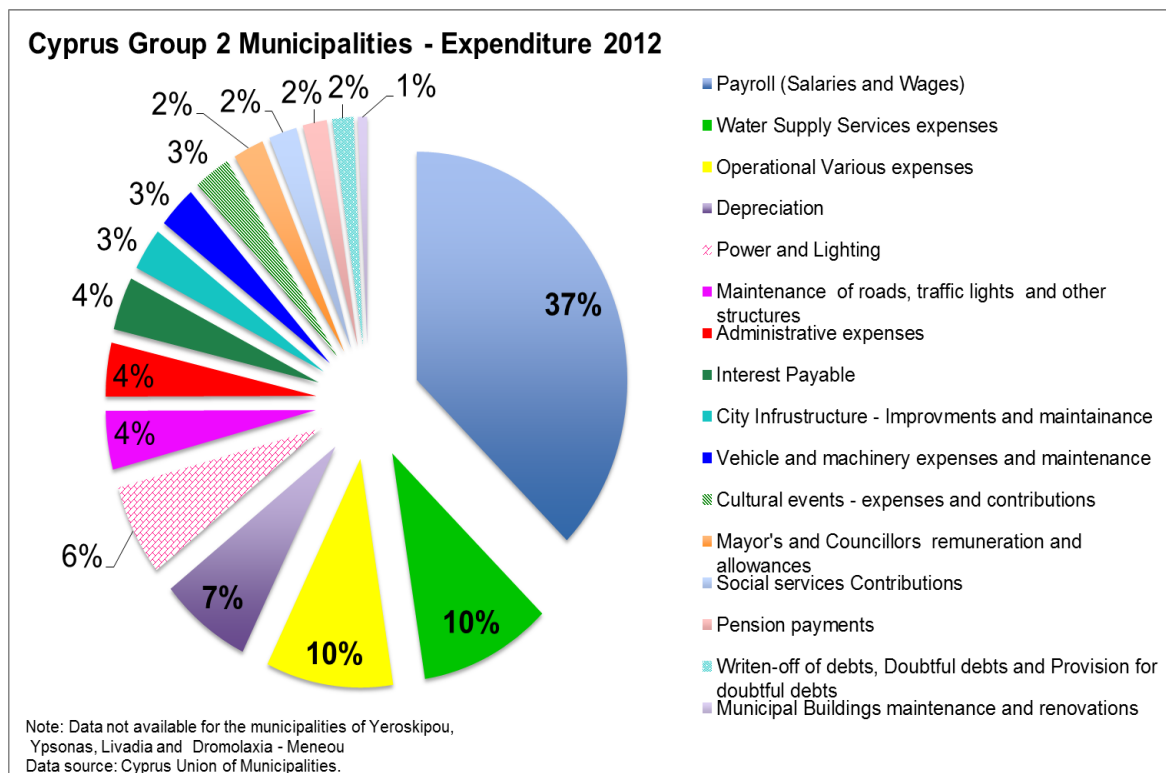


Table 18 Group 2 Municipalities: total expenditure broken down by % spend 2012

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

Group 2 Municipalities Expenditure per Head

The spend per head of population for Group 2 municipalities has been calculated using total expenditure (excluding pension liabilities) divided by total Municipality population. The spend per head is variable ranging from the highest of €3437 for citizens of Ayia Napa and €167 per head for citizens of Yeri. The average spend per head of population is €712 (see Table 19).

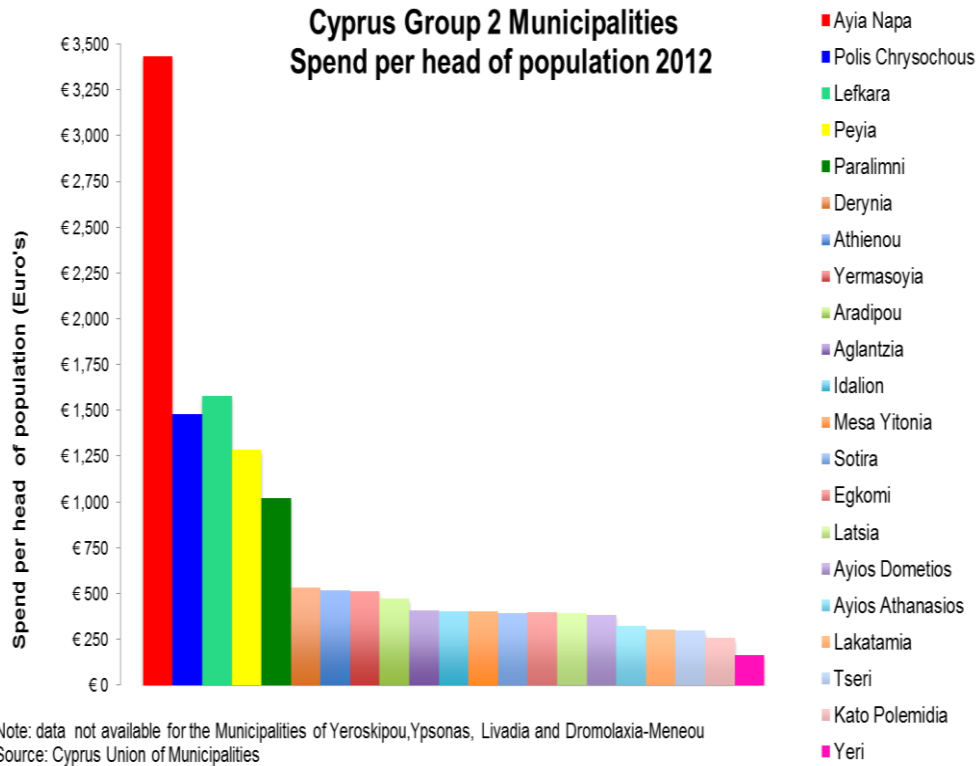


Table 19 Group 2 Municipalities: spend per head of population 2012

Variations in spend per head can be used to illustrate potential efficiency savings. For example, Table 14 shows the effect if the spend per head of Group 2 Municipalities which are above average were to move to the national average spend per head of €458.

Municipality	Expenditure (based on average spend per head of €712)	Potential Savings	% Expenditure Reduction
Ayia Napa (3212)	€2,286,944	€8,752,700	79%
Polis Chrysochous (2018)	€1,436,816	€1,555,092	52%
Lefkara (762)	€542,544	€662,478	182%
Peyia (3953)	€2,814,536	€2,268,229	45%
Paralimni (14,963)	€10,653,656	€4,619,830	30%
Total		€17,858,329	

Table 20 Potential Group 2 expenditure reduction by moving to average spend per head

Groups 1 and 2 Municipalities Sources of Income 2012

The income for Municipality groups 1 and 2 combined was €245,105,974.

The main source of income is generated from government grants and compensations providing €82,251,520 representing 34% of total income. 26% was generated from duties, permits and other royalties, namely €62,768,065 which is the second largest source.

The combined income from Municipal taxes generates €36,264,712 and represents 15% of overall totals making it the third major source of income. Table 21 shows the breakdown per municipality with Limassol generating €6,108,966 which is 17 % of overall the total tax for this area.

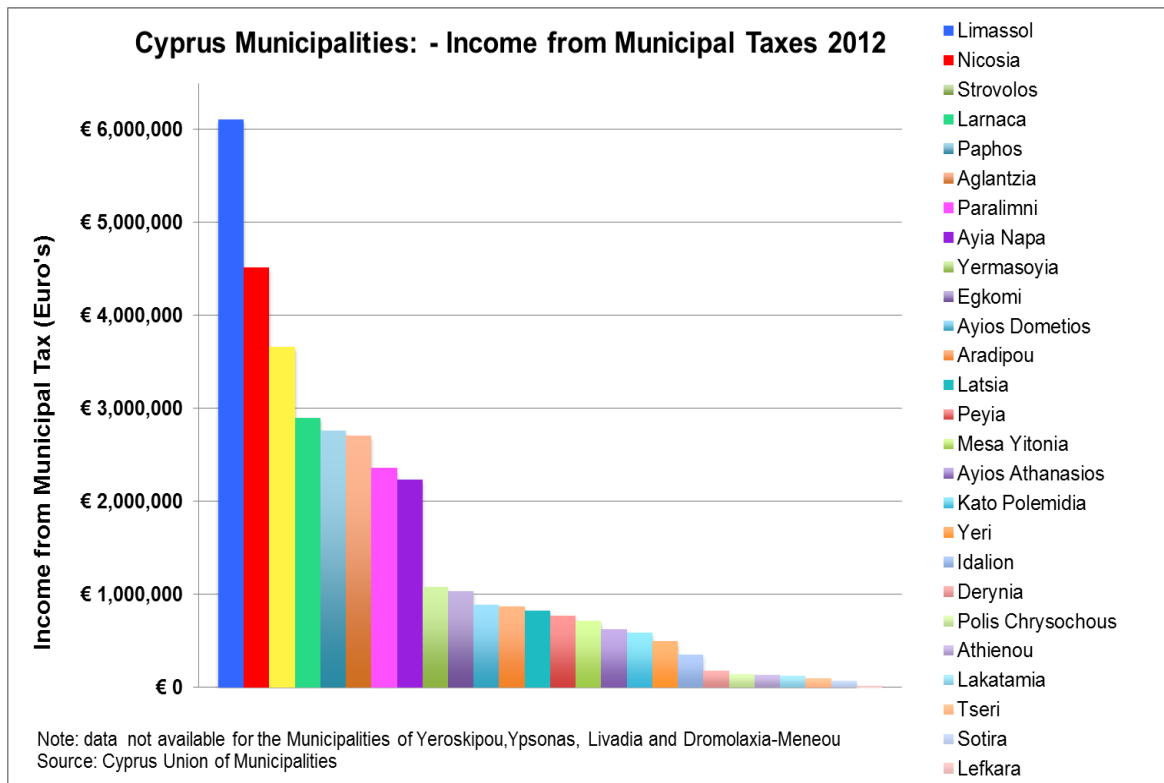


Table 21 Group 1 and 2 Municipalities: income from municipal taxes 2012

Financing Local Government Restructuring

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.

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 paragraph gives a sense of how the costs and savings would be estimated, if data were available.

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

Costs in local government

1. 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.

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 (eg 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
2. One can also breakdown service costs to include an element of premises related expenditure, but it is probably more helpful to consider this separately. So to service 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.
3. 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.

The costs and savings of restructuring

4. 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.

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.

5. In terms of service delivery:

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 delivery staff)
- makes modest savings to management and supervisory costs
- makes longer term savings on supplies and services, through the rationalisation of contracts and potential for scale economies, 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.

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. In terms of wider costs/savings:

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 – eg 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.

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.

7. 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.
8. The Government of Cyprus may wish to estimate the costs of different options for restructuring based on the above analysis.

Financing of New Bodies

How the budgets of any new local government body are formed will depend on which restructuring option from Section 4.4, Local Government Structure is chosen. Once this decision has been taken, we would recommend:

- 1) in the short term, that outline budgets are prepared, on the basis of the principle that “finance follows functions”
- 2) 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.

5 Conclusions and Next Steps

5.1 Timeline

The existing timeline sets the parameters within which the implementation of this report is set. Key dates are:

Final report on local government reform

31st March: Cypriot government will need to consider options for restructuring and for the reform of specific service delivery following submission of final report by the experts.

Local government reform deadline

June 2014: Deadline for Government of Cyprus to agree on the local government structure and a roadmap for implementing the structure and associated reforms

The Umbrella Law; Municipality Piloting

2015 budget cycle: voluntary piloting by one or two Municipalities of implementation of the Umbrella Law. Mandatory implementation by all local authorities will follow in the 2016 budget cycle.

Local government elections

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.

5.2 Action Plan

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 propose a timeline detailing requests for further information and structured meetings/workshops in order to:

- a) build consensus around one or two preferred restructuring options, so that those can be further explored and costed
- b) develop a costing model and populate it with data to provide information on the preferred option(s)
- c) explore in further depth the impact of the chosen structure on service delivery and democratic representation

d) finalise the report based on this work.

The immediate Action Plan is from now (January 20th 2014) till March 2014, and encompasses:

Jan 22nd – Feb10th: between now and February 10th we will request further financial data, and ask Departments and District Offices to start exploring how each option would impact upon them and the services they deliver during the transition stage, in preparation for our visit in the week beginning 17th of February.

February 10th-15th: the team analyses data, information and feedback received in preparation for the visit.

Feb 17-21st 4th Mission: Present the report and options to key stakeholders and receive additional feedback on proposed options. Meet with the Minister and Permanent Secretary of Ministry of Interior to build consensus around one or two preferred options. Discuss financial information and costing models. Discuss with services and District Offices the key changes that can begin, irrespective of structure chosen. Discuss/agree key messages about a communication strategy to local government and citizens.

February 22nd – mid-March review and expand report, addressing key comments and concerns where appropriate, develop the costing model of preferred option(s), in order to provide magnitudes of expenditure.

31st March: Submission of the final report, which will include a high level roadmap for implementation.

Action	Date
NSGI to request further financial data, and Departments and District Offices to start exploring how each option would impact upon them, the transition stage and final shape of their services	Jan 20 th – Feb 10 th 2014
Deadline for submission of financial data	Feb 10 th 2014
NSGI Cyprus Mission 4	Feb 17 th -21 st 2014
Present report and hear comments	
Discuss Financial info and costing model	
Discuss key actions with Services and District Offices	
Discuss/agree communication strategy with CG	
Build consensus around preferred Options	
Deadline for NSGI to populate the costing model and send to Cyprus	March 10 th 2014
Deadline for NSGI to receive preferred Option/s confirmation	17 th March 2014
Final report submission	31 st March 2014

6 Appendixes

6.1 Local Government Map; Detailed

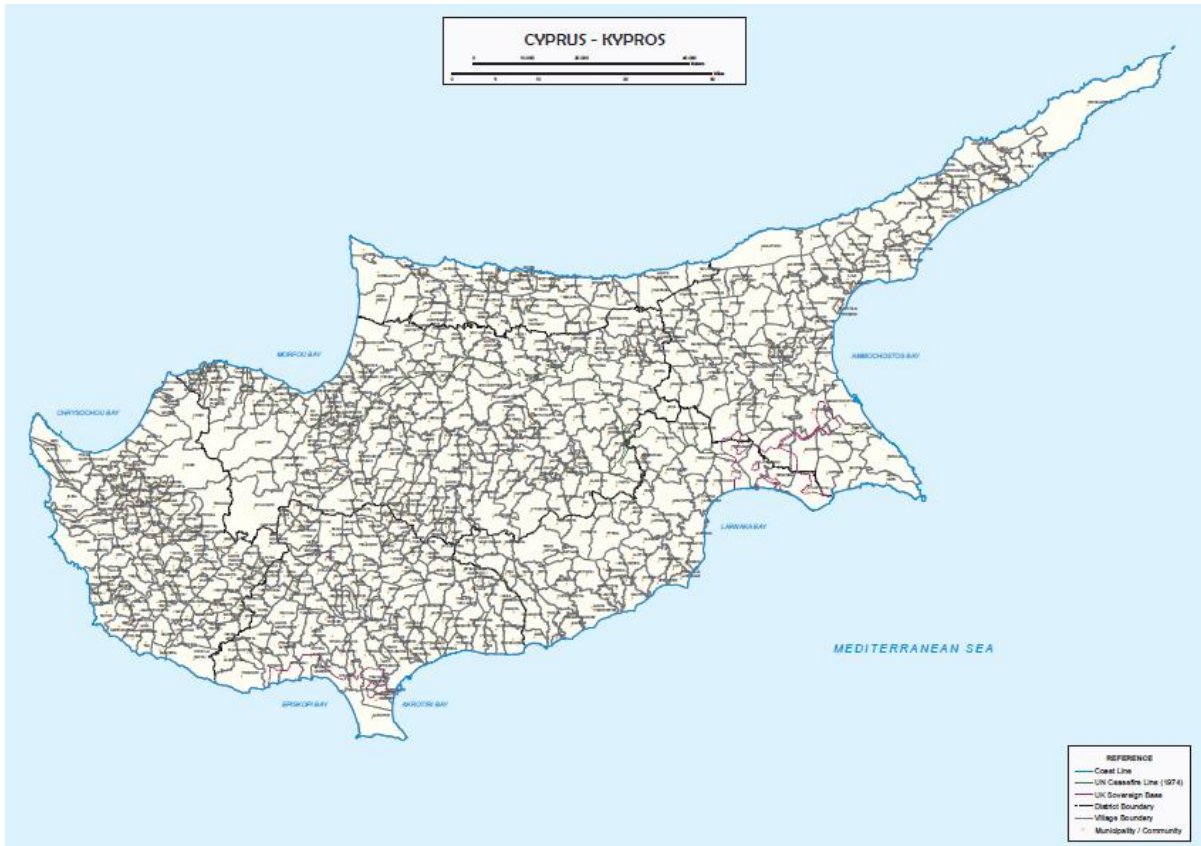


Figure 7 Administrative Map of Cyprus, 2013, Cypriot Land Registry

6.2 EKDDA Reform Approaches Discussion

Advantages		
Territorial Reform	Inter-municipal co-operation	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 , 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 politization • 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

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		<ul style="list-style-type: none">• Limited link to direct democratic legitimization, accountability and control
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6.3 Officials Consulted

Mission1

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

The three workshops were attended by -

NAME	POSITION	DEPARTMENT/MINISTRY
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 PAPP 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	Head of Budget department	Ministry of Finance
Olympia Stilianou	General Director	Ministry of Education and Culture
Tasoula Chadjiprodromou		Ministry of Education and Culture
Michalis Sarris	Friends of Nicosia	President
Christos Christou	Acting director of Public Health Services	Ministry of Health
Filippos Soseilos	PWC Cyprus	Partner, 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 Lefcara 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 Iakovou	Director of Public Works	Ministry of Communications and Works
Anna Aristotelous		Ministry of Justice

Mission 3

Met the PS of MoI, Administrative Officials (including on strategic planning) and District Officers

Met MoF to discuss PFM Reforms and how this would affect Local Government

Focused Interviews with officials from relevant departments about the following-

6.4 Ministry of Interior Organogram

