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1. Introduction

1.1 Determinants of reform

Territorial consolidation has occurred in several European countries based on an array of arguments, including the need for higher administrative and financial capacities to provide services and infrastructure (water, waste treatment and local roads); demographic changes which are a challenge both for local government that lose population and for those that experience constant increase. In some countries the reform has reflected the increasing role of local government in service provision, in particular social services and has served as an instrument to adapt territorial division to changes in function and resource allocation. In others, especially countries that have been affected by the financial crisis see the potential for saving money from the reduction of the number of local government as an important principle for territorial reform.

Factors that have primarily driven the territorial reform in Albania are as follows:

- Economic crisis: the need to adopt a cautionary spending policy prompted the government to review the structure of spending, attempting at cutting back on “unnecessary” expenditure – i.e administrative expenditures at local level
- Demographic changes: Large waves of migration, in particular the recent trends of migration towards large urban centre as well as the decline in the natural growth of the population have resulted in new demographic patterns in existing local governments
- High level of fragmentation of local governments: Lack of capacities at local level hinder delivery of efficient and quality services at local level

1.2 Objectives of reform

The primary determinants of the reform do not fully converge with the main objectives of the reform. The main objectives of the reform include:

- Management level: Need for higher administrative and financial resources to provide quality services – the weight of administrative expenditures in the local budget had increased in the recent years, despite the overall decline in local government expenditures. Budgets of smaller local governments were dominated by wage expenditures
- Functions: The need for an increasing role of local governments in service provision, in particular in order to achieve regional cohesion objectives (i.e. education, health, social services, poverty). However, the revisited strategy of decentralisation does not propose any substantial changes in the functional allocation of responsibilities towards local governments. Administrative decentralisation
- Service efficiency: the high fragmentation of local governments has resulted in fragmentation of services - inefficient services both in terms of cost as well as quality (i.e. public transportation, waste management, etc.)
- Pool resources and capacities: reduce level of administrative expenditures, reallocate financial resources to actual services

Several studies indicate that the size of local authorities and the efficiency and performance of services are not directly correlated. It is often assumed that the scale of output may have an influence over the cost and performance of services, thus advocating in favour of larger units as they allow for the provision of specialised facilities and services beyond the capacity of smaller local authorities (Newton, 1982). Nevertheless, the optimal size of local governments is likely to vary depending on the service area (Bises and Sacchi, 2009). Even within service areas there are typically multiple activities. Bish (2001) suggests that as different activities are likely to possess different scale characteristics, no single authority (large or small) is likely to be of the optimal size to produce all of them efficiently. Thus depending on the type of service, geography of territory and other endowments decision should be made on a case-by-case basis on whether joint provision or outsourcing is the most appropriate method.

2. Advantages and disadvantages of current proposed structure

The government strategy for the territorial reform and future operations of local governments has not established any major changes to the internal structure of local governments. The major

amendments proposed to the current law on “The organisation and functioning of local governments” (8652/2000) include the following changes to the organisation of local governments:

2.1 Political structures

The proposed number of members in the local council does not change substantially from the previous system. The proposed amendments have increased the number of councillors for localities with a population larger than 400 thousand inhabitants (essentially only Tirana); which change from the current 55 members to 65 members in the new territorial layout.

The local council is elected by a party list and there is no provision for territorial representativeness of proposed party list candidates in the local council. The council is responsible for policy elaboration (including normative acts) and adoption of local budget as well as other important strategic documents (such as the territorial plans).

The Mayor of the municipality is elected on a majoritarian system basis. Although de jure the Mayor is assigned only a management and execution responsibility by the legislator, in clear contrast to the broad powers of the council; the latter is de facto an extremely important political figure in the local government. Indeed, more recent legislation on local governments have tried to adjust this apparent conflict of power within local governments in favour of the institution of the Mayor: the law on territorial planning for instance established that the Mayor is responsible for preparing and proposing the vision for development and the council may not make amendments to the proposed draft but can only issue comments to be reflected by the administration.

There are some negative aspects to the current model in the new territorial layout, which entails largely heterogeneous constituencies (urban/rural conglomerations; smaller and bigger units; differing economic structures). The issue of democratic deficit is the most widely manifested argument.

Another issue may be related with errors of representation – Smaller rural communities will probably not be represented in the local council. This will weaken their opportunities to lobby in favour of more significant investments in their own communities. However, in many cases it will be the urban centres of the new local governments that risk being out-powered in the local councils: in many cities the new configuration has changed the ratio of population in the favour of rural

communities. This may result in a distorted investment policy, where funds may risk to be fragmented in order to please all the villages, following patterns similar to what was manifested in the period when regional councils were in charge of allocating regional investments to local governments. On the other hand, the urban constituencies are usually the biggest contributors to the local governments' budgets both because of higher tax rates in municipalities as well as due to better tax compliance as compared with communes.

There are also positive aspects to this model, including the accountability of Mayors as directly elected officials; as well as prevention of institutional conflict which would arise if both councillors and Mayors were elected directly, making formulation and implementation of local politics rather challenging. However, the revision of the organic local government law should at least consider the introduction of a ***“local proportional”*** list of candidates to the local council, if direct election of local councillors is seen as unfeasible.

2.2 Administrative structures

The proposed amendments to the organic local government law have further strengthened the authorities of the Mayor, by granting to the latter the power to adopt the internal structure of the municipality. The new amendments have also instituted the “administrative units; which coincide with the territories of the communes and municipalities in the previous system. The Mayor also appoints the ‘Administrator” of the administrative unit, who is the territorial representative of the mayor. The responsibilities of the administrator/administrative unit are equivalent to those of the current boroughs of the city of Tirana and consist of largely administrative and delegated duties on behalf of the larger municipalities, which can be grouped into the following main types:

- Administrative services
- Oversight of the territory and support for the central administration, including oversight of the activity of the heads of villages
- Administration of parks and green areas; other public facilities such as sports grounds, playgrounds etc.
- Prepares and proposes to the Mayor initiatives of local interest

Each administrative unit is composed at least of the Administrator but will typically require the services of other employees as well.

There have been no discussions on the legitimacy of the Administrator. The choice of the government in proposing an appointed central figure for each administrative unit is pragmatic as this will facilitate the work of the Mayor and municipality. However, the democratic deficit that was discussed earlier in this section could have been adjusted in the method for selection of the Administrators. Some public deliberation of the communities on the preferred choice of candidate would be desirable. The election need not be formal – i.e. on the day of elections, but an election similar to the model applied for the heads of villages could be considered. Alternatively, the Mayor may run for elections with a full team of candidates for the administrators – in which case the administrators would be indirectly legitimated. Despite party preference for the candidate, constituents may be likely to vote against the Mayor if the proposed candidate for the Administrator is not a reliable figure.

3. Organisation and operation of new local governments

3.1 FAP: challenges of new municipalities and enabling environment

The new administrative and territorial layout of local governments in Albania establishes new municipalities that encompass larger territories, including urban, periurban and rural areas, as well as a generally more prosperous natural resource and other factor endowment. Naturally, the new boundaries encompass a multitude of development realities, economic activities (agriculture, agribusinesses, tourism and industry) and environmental challenges. Population that municipalities will serve will also be much more heterogeneous in terms of composition (ethnic minorities, in particular Roma and Egyptians; internal migrants); age (weight of minors and elderly in overall population) and background (education, health status, main economic activities and skills).

The Functional Areas Programme studies clearly indicate that the diversity of territories and population warrant the diversification of policies and services that municipalities will provide in the future. Municipalities that previously served urban areas exclusively will now be in charge not only of typical urban services, but will be in charge of regulating development in cities and remote villages alike; consider development permits for residential buildings, factories and irrigation facilities at the same time.

FAP studies indicate that municipalities will need to play a more proactive role in orientation of development, thus strengthening their planning and management roles. Provided that municipalities will take on a new and reinforced role in local economic development, in the majority of cases this will mean that the new municipal administrations will need to acquire new staff with more sectoral expertise at the policy and executive level. Alternatively, municipalities may rely on central government deconcentrated agencies for sectoral expertise. However, the hierarchical organisation of governmental institutions typically hampers timely and responsive exchange of information horizontally. Local governments will need to identify the sectors with the highest development potential in their area and play a facilitator role for local growth. In this sense, municipalities will need to outgrow the current role of public service and infrastructure provision alone (which in itself is an important precondition or incentive for local development), but also look at innovative projects for employment promotion/ achieving synergies and multiplying effects for economic growth and local social cohesion.

3.2 Mainstream local government functions

The review of local government functions starts with the identification of the key programs for which they are responsible and the functions they undertake in relation to this program:

- ***Policy functions***
- ***Coordination, monitoring and performance monitoring functions***
- ***Service delivery functions***
- ***Support functions***
- ***Regulatory functions***

The process of designing the structure of future local governments should entail an analysis of those services/actions that are not essential to local governments' operations; reducing the administrative burden for those services that are inherent to the local government responsibilities and determining the resultant list of necessary functions, such as:

- Basic local government functions (generally exclusive functions)
- Functions that support other governmental priorities (generally those in the shared and delegated functions domain)

It is then necessary to determine the operating environment that is most appropriate for those necessary functions:

- Inherently central to the local government unit
- Those that can be devolved to the grass-root level (the administrative unit of the local governments i.e. former communes)
- Contracted from the private sector

The “inherently governmental” functions should be structured in more detail by analysing those functions that are allocated to the elected organs (municipal council and Mayor); to the core administration; supervised body or executing agency; or the administrative units. In addition, general guidance can be provided on the internal structure of local government units (i.e. whether functions should be located in a common department; whether department divisions need restructuring and whether managerial responsibilities are balanced and sustainable). However, the local government are ultimately responsible for deciding their own internal structure and functions allocated within each department.

1. **Policy functions:**¹ such as strategic planning, legal drafting, and development of contracts, minimum standards, norms, policy analysis and evaluation, forecasting. These functions tend to be regarded as 'inherently governmental' and requiring specialist skills. These functions will be usually performed by the municipal administration, in cases when these are not already prescribed by the national government. These functions at the local government level include primarily strategic planning include spatial planning and budgeting; local economic development planning as well as social and cultural issues.
2. **Regulatory functions:** such as licensing, certification, permissions, accreditation, inspection, compliance, and financial audit. These functions are also often regarded as 'inherently governmental' and provided by statutory commissions and other arm's length bodies within government. It is widely maintained that regulatory functions should be separated from those policy functions that determine the regulations, and service delivery functions that provide services to customers. Regulatory functions will be provided by the central municipal administration. However, some of these functions (or processes within each) may be delegated to the administrative units. Typical regulatory functions within the municipality include development control units (development permits);
3. **Co-ordination, supervision and performance monitoring functions:** such as coordinating relationships between different bodies, monitoring the performance of subsidiary bodies,

¹¹ The following division of functions has been adapted from **Determining the Structure and Functions of Government : Program and Functional Reviews** (Bannock Consulting 1999)

facilitating and enabling subsidiary bodies to reach their performance targets. These functions also tend to be regarded as 'inherently governmental' and will be undertaken by the central municipal administration.

4. **Service delivery functions:** such as the provision of products or services to internal (subordinate agencies) or external (citizens, businesses) customers. Service delivery may be provided by the municipal administration or by the administrative units. Typical services at the local government level include communal types of services that serve the general public (solid waste management, water supply and sewerage, education and social care services); as well as individual services to external customers (certificates, applications, etc.).
5. **Support functions:** such as financial management, human resources management, information systems, infrastructure, staff training, efficiency review and management audit; and secretarial services. These are horizontal functions and will be provided by the central municipal administration.

3.3 Functional review of local governments

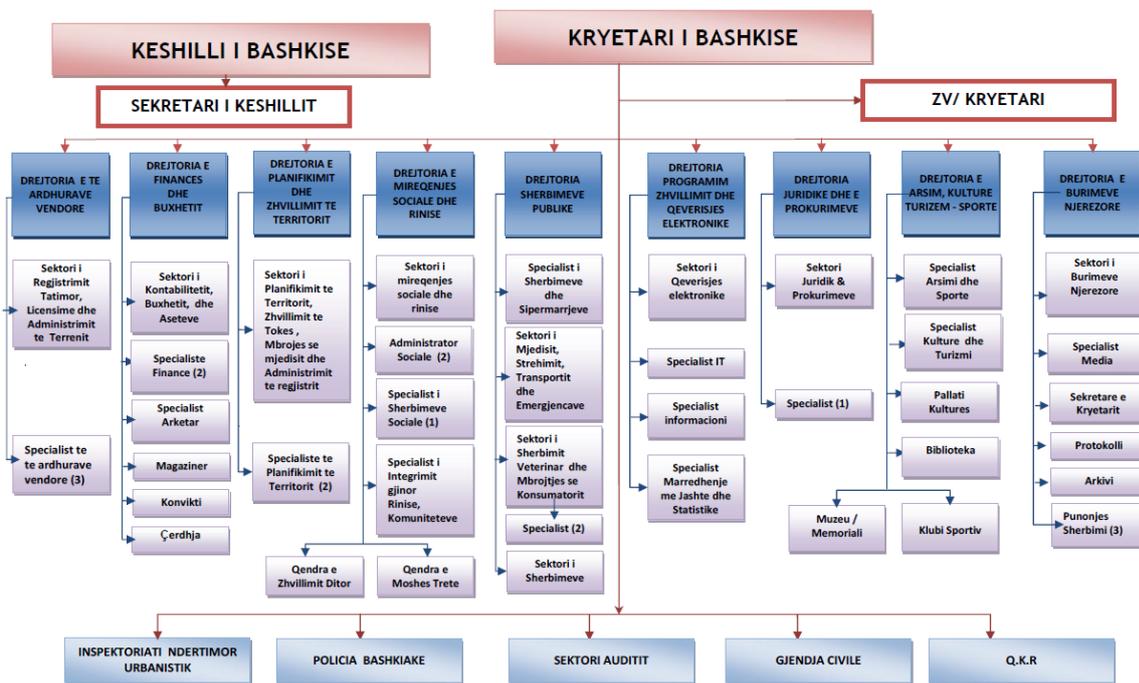
The organisation of the new local governments will depend largely on the structure of responsibilities they will have. In case the allocation of functions and responsibilities in the new local governments will remain the same as in force now, there will be no implications for the policy level. In case additional authority will be granted to municipalities in areas such as education or health (unlikely), this would entail the need for a deep restructuring of the current administrations. The main policy and decision-making bodies within local governments include the local government council; and the Mayor. Local councils hold primarily decision-making and regulatory power. They are the body in charge of adoption of normative acts of the local government, including adoption of main strategic documents (Budget, Territorial Plans) and the number of personnel of the municipality. The Mayor is the representative body of the local government with third parties and holds executive powers.

The typical structure of local governments at present is rather similar across the different units. It is based on a functional division of responsibilities corresponding largely to the allocation of local government functions as per Law 8652/2000.² In terms of functional allocation of responsibilities, most local governments today have a i) department of infrastructure and public services, in charge of services in the exclusive functions domain; ii) a strategic planning/economic development unit

² Law 8652/2000 "On the organization and functioning of local governments", as amended.

(often incorporating services in the shared function domain), iii) a unit in charge of social and cultural/recreational issues and iv) several horizontal (support) function units including budgeting; revenues; human resources; legal and procurement services. Typically all departments report directly to the Mayor and/or Deputy Mayor in accordance with the authority delegated hereto. (Figure 1). Internal audit, municipal police and construction inspectorate also generally report directly to the Mayor.

Figure 1 Typical organogram of local governments



There are some advantages to the current structure of local government, the most evident being the clear relation with functional allocation of authorities in accordance with the Law. However, local government staff get specialised in their own areas and may tend to overlook interrelated issues; awareness and oversight of other sectors may be limited. Furthermore, this type of structure tends to overload the Mayor with daily administrative issues and thus shifts the focus of the entire organisation away from strategic matters. Based on the assumption that municipalities with the on a much more proactive role in economic development issues in the future, this may prove a serious barrier to a more efficient functioning following the new elections.

3.4 Challenges for the organisation of new local governments

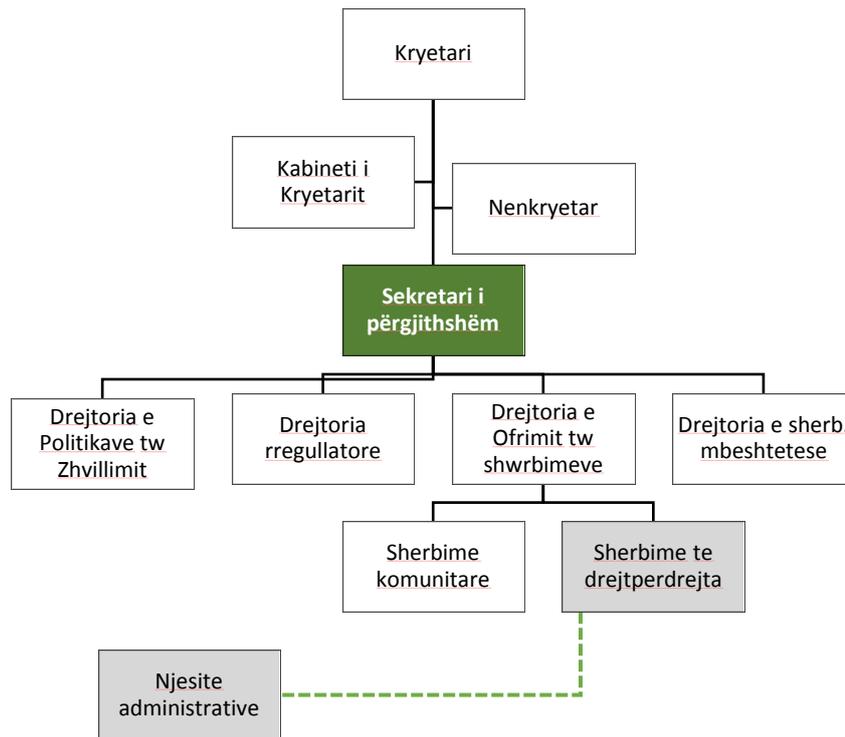
The main assumption underlying the process of functional areas programme, as also reinforced during consultations with officials and stakeholders at all levels, is that the municipality will need new skills and strengthened capacities in order to be able to perform its functions better. In particular, municipalities will need to i) strengthen planning capacity in order to understand and guide, rather than follow developments; and ii) strengthen regulatory capacity, in order to enable a fair and transparent implementation of policies and plans, oversee development, respect of national and local standards. It was argued above that there is no optimum size of local government. In a similar fashion, there is no optimum size of staff that would allow efficient implementation of such functions. Depending on the vision of the leadership, management culture and capacities and motivation of staff functions may be carried out equally with more or less staff. The legislator has ruled that the Mayor is in charge of designing the organisational structure of the municipality, as the body in charge of function execution and oversight. The following are some suggestions on possible improvements to the typical organisational structure. They must be considered with caution as realities differ between localities, management capacities and naturally different sizes of government.

The new local governments following the elections of June 2015 will operate according to provisions of the improved civil service law, which encompasses local governments of all levels and applies almost uniform rules for the management of staff and functions across level of governments. It is desirable that internal organisation of local government is – to the extent possible – comparable to internal organisation of central government.

Political level structures: The Mayor oversees all activity of the local government. Frequently the workload is shared with Deputy Mayor(s), who act upon delegation of authority by the Mayor. It would be beneficial if the Mayor had advisors who would provide specialised technical advice and focus on special interest projects.

Executive level structures (civil service): It would be advisable that the position of Secretary General, as a higher civil service (non-political) position is established in the local government. Secretary General serves as the interface between political positions and civil servants. His role is crucial as it would reduce administrative burden of the Mayor and his cabinet and ensures sustainability at the LGU level. The Secretary General primary responsibilities would be linked with oversight of execution of duties, coordination and ensuring efficiency in performance of functions.

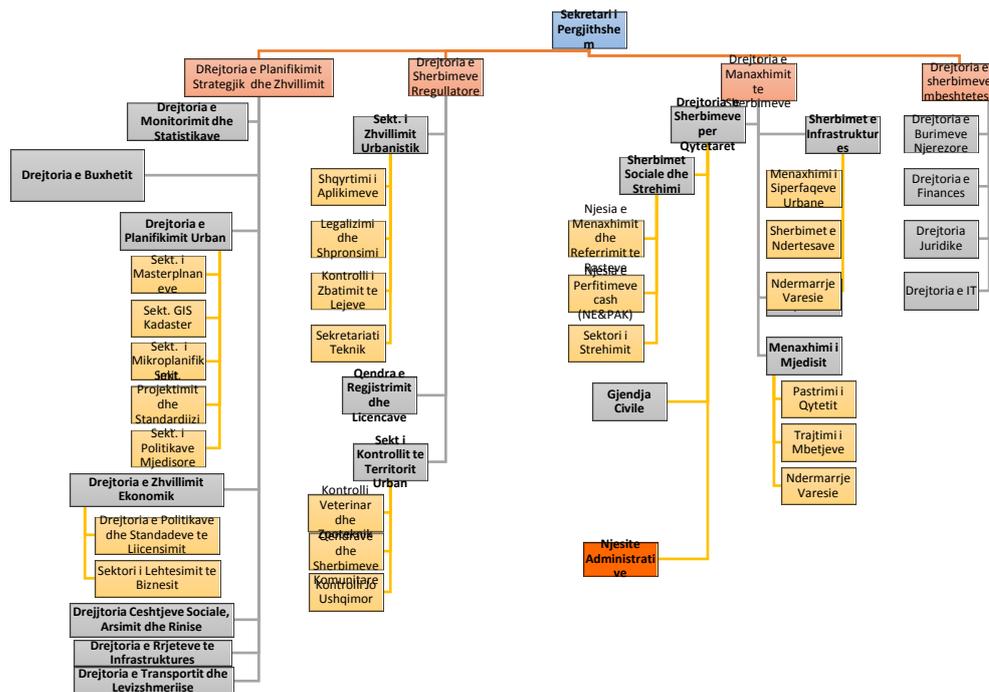
Figure 2 Orientation structure of new local governments



The proposed structure would be organised along the main pillars of functional responsibilities in accordance with the analysis provided under Section 3.2, into larger units/departments³ of:

- Development Policies, which would encompass all strategic planning functions for budget and territorial plans; social and economic development plans.
- Regulatory unit, which would include regulatory functions such as development controls and permits, licensing, control of performance of functions
- Service unit/department, including public communal services and direct services to customers
- Support service unit, including finance, IT, legal and procurement and HR services

³ Number of staff and denomination of units will depend on size of total LGU administration



The advantages of this proposed structure are linked with clearer vertical oversight of responsibilities in each area; clearer segregation of planning and regulatory functions; more integrated services as well as enhanced focus on strategic planning. As with any model, this also has some disadvantages, most notably the long chain of command may decrease motivation of staff at lower levels and interdepartmental cooperation may be more challenging. This latter challenge may be addresses through the establishment of project teams working horizontally across departments on specific assignments.

Regardless of the above, **a functional review of the current municipal administrations must be carried out for each of the 61 new municipalities.** The above model for local government organisation is fairly straightforward and has been adopted in several central government institutions with mixed results. The multidisciplinary nature of local government operations may render this structure even more challenging, but this is the inherent rationale for better focus and grouping of functions into more integrated department to avoid adverse effects u=of uncoordinated policies.

3.5 Organisation of services and administrative units

One of the preconditions set for the administrative territorial reform has been to ensure citizen-centered services at a level that is at least as good as in the previous system.

The administrative unit will serve as the service delivery centre for citizens. Formally, the administrative unit staff will be an integral part of the municipality's administration. However, their staff will be deployed to the territories of the existing communes in order to ensure that services are citizen-centric. The structure of administrative unit staff will need to be decided on a case by case level. There is growing inclination towards provision of services at the administrative level through one-stop shops. Examples of administrative services to be provided at administrative unit level include:⁴

- Civil registry
- Business registration
- Activity licensing
- Construction permits, information
- Land administration
- Social affairs, including social assistance and other cash benefits
- Public information

In a typical one-stop-shop, a number of types of administrative services involving different departments are provided through a single office. One-stop shops are conveniently located, easily accessible and equipped with modern facilities. Procedures are streamlined and fees, procedures and time needed for processing a specific request are clearly defined and publicised. However there is a risk that can be run with one-stop-shops, which relates to the ability of one stop shop staff to clearly understand and process the request of the citizens. The one-stop-shop at the level of the administrative unit is going to serve as the front office, while the back office will be located in the municipality for the majority of issues. The typical services/types of skills that will be required at the administrative unit level will be:

⁴ A full list of services is set out in the dldp one stop shop study.

- Administrator (equivalent to existing Mayors) – one per each administrative unit. In centre municipality this will entail adding of one additional staff.
- Assistant to administrator (executive secretary – equivalent to existing deputy mayor in smaller communities) or head of administrative unit (civil service)
- Social administrator – will need to remain at each administrative unit level. In bigger territories may need more than one to handle social assistance and other cash benefits
- Civil registry – will remain at each existing LG level – administrative unit level
- Municipal police officer – one may need to be assigned at each administrative unit level (even if commune does not offer service currently)
- Other functions that may/will need to be performed at administrative unit level, including agricultural land administration and urban planning inspector.
- Tax officer/inspector – may remain at each administrative unit level for at least first year (2015)/attached to the central level and facilitate budget integration transition

The one-stop-shop at the local level will be typically staffed of at least three to five people:

- At least one person in charge of civil registry
- At least one person in charge of land administration and urban planning issues. This officer may handle requests on the issue of urban planning documents and studies, notifications on urban planning permits (notifications for smaller developments may be handled by the administrative unit staff alone and bigger developments will be passed on to the central administration; information, certifications and notifications on agricultural cadastre, etc.)
- At least one person acting as the first contact – managing the request, handling requests and complaints; public information focal point.

The structure of the one-stop-shops may be prescribed in broad terms for bigger administrative units; whereas for smaller administrative units it may be left to the discretion of the municipality. The size and structure of One stop shops will also depend on the proximity of the administrative unit centre to the municipal centre – i.e. the need for a one stop shop in Kolsh is questionable given the proximity to the municipality of Lezhe.

Administrative units will report directly to the head of the service delivery department, but will need to have horizontal functional links with the other departments of the local governments. In the traditional scenario, in the absence of information management systems each employee deployed to

the administrative unit level will have a functional reporting line to the relevant department in the municipality; while the administrator will be in charge of overseeing management and routine issues. If management information system is installed, the number of staff at the administrative unit level may be reduced, as processes will be less labour intensive. In this case, the staff of the administrative unit may serve as the front office for requests, which will be transmitted directly to the back office (municipality department). Functional reporting lines to municipal departments will decrease and the administrative unit may adopt a clear vertical line of reporting to the administrator.

Service delivery at municipal level (central administration)

A functional review of the municipality: (centre – i.e. existing Lezha municipality for the future FA Lezha) should look at the number of staff and their responsibilities; administrative burden for each employee, amount of time allocated to specific functions. In particular, the review should look at the organizational chart: Is the organizational chart aligned with the specific responsibilities of the local government

- Policy functions
 - Strategic planning department: analyse responsibilities of employees within strategic planning department; activities, outputs and objectives. There may be pressure to increase staff in the strategic planning department, but this will need to be evaluated for each FA.
 - Budget department: The budget department in charge of budget policy for the local government. It is likely that there will be no additional need for new people in the budget department following the consolidation. The new municipality will be a single budget entity; hence there will be no need for budget and finance specialists at the administrative unit level.

- Support functions
 - Finance department: in charge of budget implementation – it is likely that additional staff will be needed for the finance department given that at least in the medium term it will need to manage the budget for additional budget entities, handle budget requests and treasury operations, etc. However, integration of budgets and finance will require cooperation of the communal level staff for the transition period. It

would be recommended that commune finance specialist be hired by the new municipality on a definite time contract to help with the budget integration.

- Tax department – Need for tax analysts at least in the medium term. The tax department may be included in the support services department or alternatively in the public services department, when considering that revenue collection is an internal service to the municipal administration. There is a case for establishing a separate entity of tax management for larger municipalities. In this case the tax department would report directly to the Mayor.
 - Legal& Procurement: There may be need for additional staff in the short term, as staff will be handling procurement requests for the new budget entities. The latter will need to be consolidated within the first year.
 - Human resources
 - ICT services – it is likely that this unit will need to be upgraded and more staff recruited
- Service department: There will be need for additional staff in some of the key areas. However, this will largely depend on the form for service delivery – i.e .in case service is outsourced the reorganisation should not have an impact on the number of staff. In general, the services may be delivered internally by employees; through municipality owned companies, or can be outsourced to the private sector. Often services provided by the private sector are more efficient, however efficiency is maximised when there is enough competition between potential service providers; and the municipality has the capacity to monitor standards and quality of services. In this regard, each municipality should undertake a careful in-depth analysis of the best way and models for service provision and explore possible economies of scale. Hence, it would be advisable that no changes are made to the inherited structure of service provision at least until 2016. Will economies of scale be achieved with the amalgamation? This depends on the type of service:
 - The case of water supply and sewerage, few scale economies would be achieved , given that the networks are distant Costs might be reduced through the joint administration of services and bulk purchase of equipment, and the provision of specialized technical support from a centralized location.
 - The case of solid waste present the potential for scale economies in both collection and disposal.