

Māris Pūķis

HANDBOOK

THEMATIC COOPERATION
NETWORKS OF LOCAL
GOVERNMENTS FOR IMPROVING
THE PERFORMANCE OF LOCAL
GOVERNMENTS

UDC

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ABBREVIATIONS

Charter

European Charter of Local Self-Government, Council of Europe, 1985

EU

European Union

LALRG

Latvian Association of Local and Regional Governments

KS

Norwegian Association of Local and Regional Authorities

CM

Cabinet of Ministers of the Republic of Latvia

SRDA

State Regional Development Agency of Latvia

PIT

personal income tax

CSB

Central Statistical Bureau

TERMINOLOGY USED

Sovereignty

the power (can also be divided) to decide, order and judge

Autonomy (self-dependence)

self-dependent power (can apply to several fields) free of external interference

Public good

1. the possibilities of obtaining benefits which do not decrease if any other person in the society has already received this benefit;
2. the benefit that equally applies to all people (the type of benefit can limit the range of recipients, yet such discrimination is prohibited)

Decentralisation

transferring responsibility and decision-making functions (by law or constitution) to the elected authority of a smaller territorial scale

Deconcentration

transferring the functions of executive power or judicial power to territorial institutions or agencies within one scale of authorities

Delegation

transferring administration tasks or court tasks to another public entity or private person on the basis of a law or an agreement, preserving liability for the delegator

Devolution

a situation when a higher institution or official (within one scale of territorial authorities) undertakes responsibility instead of the subordinate institution or official

Performance indicator

the value that quantitatively describes the achievements or failures of a public entity

Index (simple index)

a performance indicator in the form of a fraction, wherein the numerator and the denominator have equal measurement units

Complex index

an index designed for describing the influence of several factors, wherein each factor is described by its own index and by summing them and multiplying individual indices with weight ratios the significance of these factors is observed

FOREWORD

Local governments should change.

The concept of the Latvian poet, playwright and politician Rainis - only the one who is willing to change will subsist - is still topical.



Political systems transform, the balance of ideologies changes, and the development of technologies, particularly information technologies, continues around the world. The forms of customer service in the private sector change. Administration methods that have been inherited in an almost intact form for several thousands of years no longer comply with technological possibilities.

To be able to organise society in a more effective manner, a single approach is no longer necessary. It ensures each local government an opportunity to be unique and innovative.

The project “Smart Governance and Performance Improvement of Latvian Municipalities” is aimed at the future. It has been developed for improving the work of local governments in a manner different from that usually exercised by the central government.

The central government usually endeavours to find something common for all local governments as well as to offer and spread single ideas about the perspective of stipulating common procedures in the Cabinet of Ministers Regulations. The ethical substantiation for such actions is equality (to ensure all inhabitants equal opportunities; to reduce financial inequality). The rational substantiation for such actions of the central government is ensuring single control and supervision procedures.

Our approach is aimed at developing diversity, helping each local government in finding individual solutions. Voters elect their deputies expecting them to take action to protect their interests. They want to have better education, opportunities of spending their leisure time, healthcare and transportation opportunities right in their territory. A local government is in competition with other local governments for human resources and investment funds.

Our desire is to help local governments to be successful.

Our approach does not contradict the approach implemented by the national government; they supplement each other. The essence of good government is finding the right balance between individual and common interests.

Participation in cooperation networks promotes a more active attitude towards events in the State and local government, gives an opportunity to learn from the errors of other local governments and utilise the achievements of other local governments. During the project, we have become acquainted with the implementation of similar ideas in Norway and Poland and have assessed the results of participation of pilot local governments in the project. This Handbook is intended for developing and using the method further on.

The author Māris Pūķis is our long-standing colleague. We have been in local governments since 1989. Already at the LALRG foundation congress we became the Members of the Board of the organisation and we have been permanently working on matters concerning the development of local governments. Within the framework of the project, the author was the key expert who cooperated and consulted other involved employees in all activities.

This Handbook includes the scientific and pedagogical experience of the author, since parallelly to his work at LALRG he has been professor at the University of Latvia on policy analysis and strategic management of the public sector for 16 years.

Andris Jaunsleinis,
Chairman of LALRG

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INTRODUCTION



This Handbook has been prepared within the project “Smart Governance and Performance Improvement of Latvian Municipalities” implemented by the Latvian Association of Local and Regional Governments (LALRG) with support of the Norway grants 2009-2014 program “Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities”.

The greatest effect from using financial, property and human resources of local governments can be ensured if a local government, according to the essence thereof, observes local peculiarities to the maximal extent possible and skilfully implements the personnel policy. In some local governments, management is mostly based on intuition rather than on facts

and analysis of facts; traditional solutions of previous years are repeated more often than innovative opportunities are sought. These local governments do not use the opportunities of fiscal and administrative autonomy that are not restricted by law to the full extent; the practice introduced at central government institutions is often copied.

As a result, existing human resources are not used to the optimal extent and theories that fall behind neighbouring territories in terms of economic and social development occur; it is one of the factors that promote the depopulation of territories. An endless circle occurs – insufficiently innovative activity of a local government promotes quantitative and qualitative decrease in human resources, which in turn does not promote effective development activities. Less developed

territories are unable to break the endless circle and tend to fall behind increasingly more.

In order to solve this problem, LALRG is developing a smart governance promotion system that will become a tool for improving the performance of local governments, thus facilitating overcoming negative tendencies and involving local government politicians and employees in the process of innovative governance.

During the project, the Latvian model has been developed (www.blis.lps.lv) for applying the benchlearning method in the local governments of Latvia. The essence of this method is to find examples of good practice, analyse them and refrain them from being copied to enhance development of their own model which is most suitable for local conditions.

This method is based on two fundamental elements: cooperation networks and the benchmarking database (www.blis.lps.lv/en). In a cooperation network, the representatives of local governments select a theme to be discussed, identify common problems and search for an individual solution suitable for each of them. The benchmarking database accumulates information.

During the project, both elements have been designed and tested, yet their full-fledged introduction will occur only after the ending of the project if the tested ideas are used in the practice of improving the work of local governments. This Handbook is intended to be an assistant for local governments to make a voluntary decision to participate in the work of thematic networks.

LALRG is issuing two handbooks as an aid for applying the benchlearning method. This Handbook describes the organisation of cooperation networks and activities therein, while the second handbook is devoted to

the benchmarking database. The reason for dividing it into two editions lies within a different circle of users. Regarding usage of the benchmarking database, it is planned to involve a much wider audience. At the same time, certain interest in cooperation networks can be shown exactly by persons not involved in these networks.

This Handbook contains certain fundamental notions of the self-government policy and advice for selecting a theme, coordinating the operation of a network, using network meetings better, and developing a plan of how to improve the work of a local government.

The fundamental notions of the policy are included, since the majority of State civil servants as well as a crucial part of the public do not know the concept of a modern local government. By acting individually, a local government faces resistance in the most diverse fields – from blind hate (self-dependent decisions are called arbitrariness) to efforts of imposing criminal liability for absolutely normal activities or defamation in mass media. Often enough, the employees of a local government have studied with the lawyers of USSR times who have not changed their fundamental values and settings.

The guideline of this Handbook is pluralism – respect towards different points of view and the right of politicians of each local government to make an individual choice. Therefore, it is systematically assumed that values, beliefs, traditions, ideologies and resources that affect the decision-making process can be different. According to the Latvian model, local governments with different points of view can operate within one network. By considering jointly determined problems, these different points of view allow identifying various aspects of a problem better and facilitate the adoption of optimal decisions.

1.

BENCHLEARNING METHOD

The benchlearning method appeared as the result of the development of its ancestor – the benchmarking method.

These methods, just as many others, were adopted from the management of the private sector. Entrepreneurs made good achievements by copying the experience of successful companies. This resulted in the benchmarking method. It was necessary to find companies that agreed to share their work skill and that were similar to one's company to be improved in terms of important criteria. Then, by copying management methods and technologies, it was possible to achieve rather good results.

In the public sector, the benchmarking method works even better, since the entrepreneurs of the private sector are not willing to share their skills, while the public sector is dominated by much greater openness.

The benchmarking method is a management process, wherein organisations assess their procedures and activities by comparing them with the best practice at organisations of a similar nature. Benchmarking becomes a reporting example for improving own activities.

However, copying management methods and technologies has its own dark side – by doing so, it is possible to follow successful companies rather than be in the front. One of the brightest examples of applying the benchmarking method is the industrial development of Japan after the World War II, when its scientific and technical potential grew due to copying the world's best examples. By copying, the result is achieved faster and with less expenses for independent technology development. And yet – you cannot be the best.

The logical improvement was to create a system that does not copy but instead is intended for searching for new (innovative) solutions and simultaneously preserves the



advantages of the previous method. This is the benchlearning method.

Forums are created – in them, it is possible to discuss and assess where employees use previous achievements as the basis, yet modify them by introducing relevant changes.

This method is particularly suitable for local governments that are constantly searching for their own way. Although local governments compete among themselves, they have a lot in common. They can



compare their own achievements with the achievements of other forum participants and jointly discuss methods for improving the situation. Both own and the world's best experience, if such can be found, can be used as the basis for conversation.

We named forums where the discussion of local governments is organised as cooperation networks of local governments. The system, based on the initiative from below, activates local politicians and employees in attaining the goals promised

to the inhabitants of the relevant territory. This system facilitates management, based on facts and the fullest possible information about the experience of world's local governments in resolving issues.

Benchlearning is a training process of how to improve own practice by sharing knowledge, information and sometimes also resources. It is an active and long-lasting process that has proved itself as one of the most effective tools in introducing changes to organisations.

The main benchlearning tool is the creation of cooperation networks of local governments. These thematic networks will be related to the main areas of LALRG activities and will become supplementary to the current political and administrative structure of LALRG. The goal within the framework of each network is to adopt the examples of good practice from other organisations by applying relevant experience to own specific conditions. Likewise, it is important to learn from errors made by others and avoid them in the processes of changing the particular organisation.

Benchlearning will be implemented based on facts which will be provided by the benchmarking method.

In Latvia (as well as in other countries), efforts to manage local government or State institutions based on facts face a crucial problem – it is difficult to measure how outlined goals are approached (or detained). Data found in statistics or the budget poorly describe the goals that the local government or State politicians are striving to achieve. In the best case scenario, measurable results mostly manage to describe the output (performance of activities – “output”), it is rarely possible to describe policy results (attaining goals – “outcome”) and policy impact (approximation of vision – “impact”).

Introducing rational and target-oriented management in local governments is mostly hindered exactly by the unavailability of appropriate outcome indicators and impact indicators. Without being able to measure the approximation of goals, it is impossible to determine whether the policy leads in the planned direction. Without being able to measure the policy impact, it is impossible to determine whether the selected policy itself has been successful. Without these indicators, it is impossible to introduce full-fledged personnel motivation methods that depend on the work outcome. Hence,

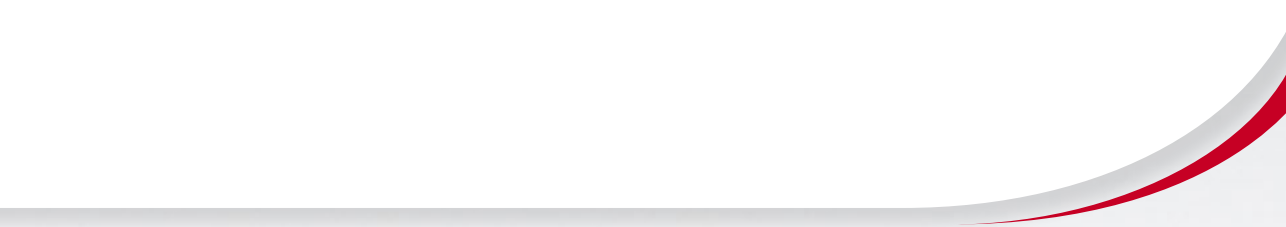
personnel and financial resources are not fully used for the benefit of inhabitants.

To eliminate this shortcoming, a benchmarking database has been developed with the aim to summarise data on local government policy goals and impact indicators and develop appropriate indicators based on these data. There is a separate handbook for the use of this database.

Benchmarking ensures the benchlearning process. Each network selects themes topical for local governments at the moment. According to the relevant theme, a work task is developed for data collection, performance indicators are calculated, and experience descriptions of local governments are ensured. The network coordinator ensures the compilation of materials to be discussed. The presentation of studied materials and data is followed by an analytical discussion, the participants of which will use ideas that occur during the discussion for improving their own work.

Ideas obtained within the framework of the benchlearning network are further used for developing and improving action strategies of local governments. Both immediate work improvement (introducing innovative methods of work) and purposeful actions (introducing strategies of local governments) initiate positive changes for inhabitants, visitors, entrepreneurs and organised civic society that constitute the secondary target audience of the application of the method.

The secondary target audience includes ministries as well. The obtained result criteria will also be useful for ministries of relevant sectors which will obtain additional information about achievements and problems of the sector in the administrative territories of Latvia. Benefits of ministries from a benchmarking database become the basis for mutually beneficial data exchange.



2.

LOCAL GOVERNMENT POLICY



This chapter is devoted to clarifying several concepts in which erroneous interpretations are encountered most often. These interpretations delay the implementation of local government autonomy. Often enough, erroneous interpretations are of a political or ideological nature, deviations from the meaning accepted by the international practice are made to deceive users and achieve the effect favourable to oneself.

For example, during the long period of totalitarianism (from 1934 to 1989) people

have developed the idea of the only truth as a valid view of life (it is important to be on the side of white forces and combat dark forces), centralisation as an opportunity to act recklessly (I am not guilty, since I was told by the centre to do the things I did), and hierarchy as the best order (each subordinate has a manager; to be a little screw in a large mechanism is more convenient).

Although we rejected all these values and recorded the concepts of democracy and local government in 1990, pluralism as a

value in international agreements binding to Latvia, the ideology and values of previous years still reproduce themselves.

Formally, contradictions to international agreements binding to Latvia should be eliminated; it would be good to write down national legal norms clearly enough, without providing the ground for the erroneous interpretation of law norms. Unfortunately, errors are widely spread, and national politicians (ruling parties, ministers, Saeima deputies) are not particularly willing to correct mistakes.

For example, the Law On Budget and Financial Management states that the budget is a tool for implementing the State policy. It would be correct if it concerned the State budget. It is incorrect if it concerns the local government budget. The law applies to both types of budgets. The norm referred to in this aspect is anti-constitutional – the Constitutional Court considers that the execution of the Charter should be related to the observance of the principle of a democratic state determined in Section 1 of the Constitution. However, centralists have no intention to change the erroneous norm, as they still feel as if they are living in the age of a multi-stage budget.

In case of a multi-stage budget, the budget of a greater scale includes budgets of a smaller scale as its components. At the lower budget level, only detailing the provisions of the higher-level budget is possible. If people do not know that the multi-stage budget is no longer in force in Latvia since 1992, they adhere to the old erroneous formulation. For a local government, not knowing laws and not understanding democracy causes problems, therefore this chapter is devoted to the examination of the most typical errors.

2.1. Most Essential Elements of a Local Government

If something can be decided by a local authority, it is accepted to use the concept

“local government”. The concept of a full-fledged local government provided in the European Charter of Local Self-Government (hereinafter – “Charter”) includes the following crucial elements:

1. presence of direct or representative democracy (power belongs to representatives of local residents/ deputies elected via direct elections);
2. responsibility of the executive authorities of a local government towards elected deputies (even when the executive power represented by the mayor (in Latvia – Chairman of the City Council) is directly elected);
3. inclusion of a substantial share of public matters in the responsibility of a local government (the local government has the right to independent policy in these matters);
4. independent budget (own financial resources, on the expediency of use of which it decides independently);
5. presence of own property (which is the collective property of inhabitants of the relevant territory, property of a legal entity representing these inhabitants and created according to law).

Unfortunately, a great part of the Latvian public is not ready for a local government. They do not learn about local governments in school; upon finishing secondary school, the majority of pupils think that a local government is some central governance institution. Faculties of law at universities and higher educational institutions do not teach modern understanding of a local government. Local governments employ people that were deceived in school and university. Likewise, journalists in mass media constantly demonstrate the lack of understanding and deceive readers and viewers about the place and role of local governments.

This Handbook is intended for the makers of the local government policy. Therefore, it is necessary to start with explaining the fundamental concept. Out of all the five previously mentioned signs of a full-fledged local government, many politicians of a national scale, officials and many journalists find it most difficult to accept the presence of the local government policy.

2.2. Pluralism in Local Governments

Different swearwords such as arbitrariness are used to designate the local government policy. Unification is perceived as a virtue, while diversity and individual thinking – as a vice.

This Handbook is intended for those who wish to improve the work of a local government or better understand how to cooperate with central and local governments. Therefore, the examination of how to use cooperation networks should be started with an in-depth explanation of the concept of a local government. We will draw the main attention to the criticism of erroneous ideas.

Under the conditions of totalitarianism, there was a tradition that there is only one correct policy. The only correct policy after the coup d'état in 1934 was that of Kārlis Ulmanis. The same applies to the three occupations after the introduction of totalitarianism – by the USSR, Germany, and the USSR again. Over this time, a generation grew that got used to the only correct policy and felt discomfort after 1990.

We had to reject many customs – we had to get used to elections and the formal recognition of democracy. However, many traditionally thinking people, particularly lawyers of USSR times, found it difficult to get used to pluralism. The understanding that different groups of society and particularly

individuals were allowed to express and defend their different points of view seemed unacceptable to them. The majority of the men of law (as state lawyers, who constituted the basis of public law after 1990, used to call themselves) maintained their sharply negative attitude towards pluralism and spread it also among students. Hence, today we live in a society that is characterised by explicit anti-pluralism tendencies.

Anti-pluralists actually cannot understand and recognise modern self-government. They often tend to confuse self-government with federalism. It is stated as a mantra that Latvia is a unitary state (it is meant that Latvia can have no self-government). It is not taken into account that even in the Middle Ages the presence of a local government meant a rather high degree of independence (autonomy). If any matters are within your competence, then explicitly you and not someone else can make a decision.

Many lawyers (and also law users) are muddle-headed, they repeat the statement heard from their teachers that “state administration can only do the things set in law”. Officials and judges act “pursuant to procedures laid down in regulatory enactments” and are even proud of it! They mistakenly think that State administration is meant for the Cabinet of Ministers, assuming that State administration represents the entire executive power. They mistakenly think the local government belongs to the executive power of the State.

If the central government is a “higher-ranking institution”, lower-ranking institutions must fulfil the policy of higher-ranking ones. Hence, lawyers of Soviet times and their students come to a conclusion that a local government must always act “pursuant to procedures laid down in regulatory enactments”, i.e. a local government cannot even have its own policy!

The problem is caused by the circumstance

that all the aforementioned erroneous statements are based on “partial truth”; these statements are close to the truth in some cases; they become incorrect once we generalise them. To explain the situation in more detail, we will provide short answers to several questions.

2.3. Who Holds Sovereign Power and in Which Fields?

In accordance with the Constitution, the sovereign power of the Republic of Latvia is vested in the people of Latvia (Section 2 of the Constitution). It does not mean that the entire public power belongs to the nation of Latvia, the will of which is implemented by citizens above 18 once in four years via Saeima elections. In the modern world (also in Latvia) sovereignty is shared; national power (Republic of Latvia) shares sovereign power with the global power (for example, the UN, the OECD, the NATO, the International Monetary Fund and other inter-governmental organisations within the framework of relevant international agreements), with the European power (for example, the EU, the Council of Europe), and with local governments (as stipulated by the European Charter of Local Self-Government (hereinafter – “Charter”), which Latvia joined in 1996 after becoming a Member State of the Council of Europe in 1994). The greatest share of power indeed belongs to national power – the Republic of Latvia; however, until Latvia opts out of international agreements (as the United Kingdom is about to do by leaving the EU), the legal capacity of national power is limited.

In the field of local governments, the rights of the central power are limited. 29 out of 30 principles of self-government referred to in paragraphs of the Charter are binding to Latvia. The rights of a territorial community are included in the range of fundamental rights that the Saeima, the Cabinet of Ministers or a court are not allowed to violate.

It is the manifestation of shared sovereignty – the State repudiates its sovereign power in favour of a local government to the extent stipulated by international agreements.

Thus, the global share of sovereignty is delegated from Member States of relevant international agreements; the share of sovereignty delegated to the EU is divided between the representatives of all Member States (EU Council) and European people (EU Parliament), the sovereignty of the Republic of Latvia is invested with the people of Latvia, while the sovereignty of a local government is invested with the territorial community – inhabitants registered in the territory of the local government, in favour of whom citizens participate in local government elections. Registration in a certain territory works similarly to a citizenship in the country – registration legally determines liability (duties and rights) in relation to the administrative territory.

2.4. Does a Unitary State Contradict a Local Government?

The unitary state doubtless does not contradict the shared sovereignty. The idea of an isolated country that has enemies behind every border does not correspond to reality. Within the framework of international relations, power is shared both with other countries and within the framework of a unitary state with local governments.

There is nothing bad about federalism if only people forming the federation are willing to live together. The unitarianism of Latvia means that the main competences of the State are not meant to be shared (Latgale, Zemgale, Kurzeme, Vidzeme, or Riga cannot separate from Latvia); however, unitarianism does not mean that Latvia should not have local governments. Likewise, a two-chamber parliament does not contradict the principles of a unitary state, even though the Constitution determines a simpler system for adopting central laws.

There are a lot of countries in the world which consider themselves to be unitary; it does not mean repudiating the autonomy of local governments within a wide range of competences.

2.5. Is Public Administration Allowed to Do Only the Things Stipulated by Law?

At the end of the 18th century, the principle of a “state of law” (German – “Rechtsstate” (in Latvia, it is often called “law-governed state”) was proposed and widely introduced. In Latvia, this concept was adopted from the reforms of Alexander II in Russia, wherein the German “state of law” was called “legal state”. In the second half of the 19th century, Russia experienced not only the abolition of serfage but also extensive reforms in the administrative structure following the German example, and also started the process of creating modern local governments. After the assassination in 1881, the son Alexander III came to power and stopped liberal reforms that were afterwards resumed after the Revolutions of 1905 and of 1917 until the overturn of the Bolsheviks. It is typical that in Russia “revolutionists” of different historical periods feared constitutionalism and parliamentary order the most.

In Germany the law-governed state is substantiated by the Doctrine of Right by the philosopher Immanuel Kant. According to this doctrine, the main task of the constitution is to protect a citizen against the state – the state is not allowed to do anything for which it has no authorisation stipulated by the constitution. From this point of view, all Cabinet Regulations are illegitimate, since the Constitution stipulates the legislator’s power to the Cabinet of Ministers only under special extraordinary circumstances (excluded pursuant to procedures laid down in Section 81).

Some time later it became clear for the historical implementers of a state of law that it would be impossible to fully describe everything in laws, nor would it be possible by means of enactments subordinate to laws, i.e. government or ministry regulations. If provisions are always precisely observed, it will result in absurd decisions in certain cases.

Therefore, the principle of proportionality was introduced – recognising the need to commensurate the consequences of a decision with the public benefit. Eventually, it has led to the conclusion that the legal principle in a law-governed state has higher legal force than the law.

Hence, public administration should act according to legal principles and according to the law if no legal principles are violated this way. Hence, it is allowed to do things that are not stipulated by law, if only it complies with legal principles. We will consider three principles – the principle of self-government, the principle of subsidiarity and the principle of proportionality – individually.

In the simplest model – if we forget about legal principles, we must act in a manner stipulated in regulatory enactments of a general nature of the relevant level by implementing State functions in accordance with EU laws, Saeima laws and Cabinet Regulations, thus fulfilling the autonomous functions of a local government in accordance with all above mentioned and binding regulations of a local government.

The State constantly carries out overregulation – adopts laws and Cabinet Regulations in the field of responsibility of local governments, although this overregulation contradicts Paragraph 4 of Article 4 of the Charter: “Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by under the law”.

According to the Charter, the law cannot restrict the fulfilment of an autonomous function, yet it is abnormal, there must be some special conditions that make the interference of the State necessary. Unfortunately, Latvian politicians think otherwise – that it is normal to interfere; they do not interfere only in certain cases.

In the field of autonomous responsibility, a local government is in a similar situation to a private person – it can do anything that is not prohibited by law. If law restrictions are excessive it can complain to the Constitutional Court or encourage politicians of its political party to come to reason and reduce restrictions. However, while the law is in force it must be observed.

If we observe the priority of legal principles the decision-maker has the right to primarily observe legal principles, rather than the law or binding regulations of a local government.

Wherewith, there is a question – who makes the decision? In other words – who is allowed to violate the written legal norm? The State and the local government must ensure that legal principles have higher force than written legal norms, yet procedures for achieving that are different from the regulatory framework in laws and binding regulations.

The administrative process is applied at both local government and State institutions, as well as court. The person adopting a decision in the first instance applies the legal principle as well. Simultaneously, according to the State Civil Service Law, a civil servant has the duty to report to a higher-ranking official on any discovered contradiction in legislation. For a local government (preferably in the local government statutes), procedures for adopting and appealing an administrative act should be determined. These procedures can include conditions for adopting a decision according to the legal principle.

At a ministry, a higher-ranking official is a politically elected minister. He/she has the right

to adopt the decision, unless the law stipulates otherwise. Thus, a minister is a person who may, without any special law authorisation, violate the law to ensure a decision according to the legal principle.

Hence, public administration (both State administration and local government) is allowed to do things that are not stipulated by law.

2.6. Is the Entire State Administration Subordinate to the Cabinet of Ministers?

Definitely not, unless we specifically narrow the concept of State administration.

We will start with State administration. The two institutions of executive power, i.e. the President of the State and the State Audit Office, were described as independent from the Cabinet of Ministers already in the basic wording of the Constitution of 1922.

Likewise, Section 58 “the Cabinet of Ministers has the subordinated State administration offices” in no way states that all State administration institutions should be subordinate to this collegial institution. The text clearly shows that there can be other institutions that are not subordinate.

Moreover, a detailed explanation of subordination can be found only after 2002 in the State Administration Structure Law; furthermore, according to Section 8 Paragraph 4 of this Law, the content and scope of subordination of a local government should be sought in another law – the Law On Local Governments. In fulfilling the task of State administration, a local government or its institution is not within the range of institutional subordination to the Cabinet of Ministers. Functional subordination is manifested as observance of laws and Cabinet Regulations.

Unfortunately, central government workers often think that a local government is also

within the range of institutional subordination. Those are the effects of the USSR time thinking that does not disappear that quickly and also reproduces in lawyers of the new generation.

2.7. Are Local Governments Parts of State Administration?

Local governments are separate legal entities.

In the field of private law, a local government can have deals with the State; a local government can sue the State. The property of a local government is not the property of the State, yet it is the collective property of local government inhabitants, which the local government handles in favour of these inhabitants. A local government has individual financial resources, of which it can dispose within the limits set by law. In these terms, a local government is similar to any private person; the only difference is in restrictions stipulated by law.

In the field of public law a local government has both autonomous and delegated competence. In both cases, this competence can be imposed by law (mandatory competence) or undertaken voluntarily (in the field of autonomous competence, it is enough with a decision; in the field of delegated competence, an agreement is signed).

A local government is in no case a part of State administration; yet, in practice, it is within the range of functional subordination. Any inhabitant of the country is within the range of this functional subordination, since he/she must fulfil mandatory norms determined in laws. A local government has almost the same degree of self-dependence (autonomy).

As it has been previously noted, overregulation is manifested within the range of functional subordination, and with increasing political culture the State should

repudiate the greater share of the regulatory framework.

2.8. Does a Local Government Have to Act Only Pursuant to Procedures Laid Down in Regulatory Enactments?

Regulatory enactments are twofold – internal and external. Everyone – officials, local government employees, entrepreneurs, every inhabitant – must observe external regulatory enactments.

There is a difference between concepts “observe” and “fulfill”. By observing, we search for the following:

1. whether actions preferable to us are not prohibited;
2. whether the legislator’s points of view would suit us as advice.

By fulfilling, we enact ourselves to promote the goal determined in law.

The fact that we do not wish to support each idea of the ruling coalition is normal, even if we ourselves are involved in the ruling party. Decisions are often adopted with a minor majority of voices, whereas several months later the government itself may admit that a mistake was made.

Internal regulatory enactments must be fulfilled only by those who are within the range of institutional subordination. It is beneficial for others if internal regulatory enactments are publicly available, yet they are not mandatory. The observance of internal regulatory enactments is determined by the statute of an institution, while in State administration – also by the law On Administrative Procedure.

A local government (as a legal entity of public law) should act in accordance with external

regulatory enactments; the general statement regarding acting pursuant to procedures laid down in regulatory enactments in relation to a local government is wrong.

However, there is a nuance to be observed. According to the traditional concept of administration, a public person is seen as a whole. Internal and external regulatory enactments together form the regulatory framework within which an institution or official acts to represent its legal entity. Therefore, the State can demand that its officials act pursuant to procedures laid down in regulatory enactments, although it does not suggest the high quality of administration. Higher quality is characterised by flexible actions when a civil servant him-/herself is allowed to think and make a decision.

Likewise, a local government can follow the manner of State organisation and demand that local government employees act in accordance with the external and internal regulatory enactments of the local government.

The answer to the initially asked question is negative. This is why a local government is self-government in order to act individually, unless law especially stipulates other procedures.

2.9. How Should the Principle of Subsidiarity Be Observed?

The principle of subsidiarity in Latvia is recognised in laws as a legal principle, since it is formulated in the Charter, included in the Treaty on the Functioning of the European Union, and mentioned among the principles of organisation of State administration in the State Administration Structure Law.

Just like every ideal, this ideal is not favoured by everyone. It determines that, under equivalent circumstances, priority should be given to decentralisation. If the private sector individually (an individual, family, company,

NGO) can handle any duty, neither the local government nor the State must interfere. If private persons cannot manage, the duty to assist by interfering is imposed on the local government. Only if a local government cannot get through, the State or the EU are allowed to interfere.

Article 4 Paragraph 3 of the Charter defines two cases when the State has priority, compared to a local government. Those can be the following:

- Extent and nature of the task (the task shall be generally fulfilled on a scale greater than a separate local government);
- Requirements of efficiency and economy (on a larger scale, provable financial savings occur).

In relation to subsidiarity it is important to establish who has to prove the need for centralisation (there is no need for decentralisation; preservation of responsibility closest to inhabitants is a natural condition). An answer to that is given by the Treaty on the Functioning of the European Union that imposes a duty to prove to the European Commission – the submitter of a new draft law. By analogy, the duty to prove is imposed on the person who wishes to centralise something.

The introduction of subsidiarity is delayed by different stereotypes popular among residents. They do not have any scientific proof. For example, that uniform procedures are better than diverse procedures (socialistic setting), or that scale economy obtained on a larger scale always exceeds shortcomings caused by great bureaucracy. In practice, subsidiarity is not favoured by all those who like to command from the centre.

In practice, centralisation is implemented by the Saeima or the Cabinet of Ministers with the Saeima mandate. The mandate (the law

specifies that a process will occur “pursuant to procedures laid down by the Cabinet of Ministers”) does not determine what exactly is to be centralised. Some of these processes are left within the competence of a local government. However, according to the principle of subsidiarity, it should be otherwise – the Cabinet of Ministers should prove why common procedures are necessary.

By determining equal norms for all territories or all identical institutions, it is assumed that the inhabitants of Latvia care about uniformity so much that they are ready to significantly increase the cost of public services only to ensure this uniformity. A civil servant with excellent results is paid just as much as a loser. A driver that drives for 2 hours a day is paid as much as a driver that drives for 7 hours. However, sameness is ensured.

Identical regulations, without taking into account the characteristics of the local situation, cause extensive squandering of public funds. Usually, instead of promoting flexibility and diversity, larger structural units are offered, as they are able to manage funds in a more rational manner. If each centralisation offer was carefully assessed and it was established whether centralisation conditions were fulfilled according to the principle of subsidiarity, there would be no need for joining useless institutions or territories and it would be possible to save great public funds.

The results of elections do not prove that society shows such a great support for sameness as it seems. If any party openly expresses its socialistic offers, the number of votes is a measurement. Development paces slow down significantly because subsidiarity verification procedures are not applied.

2.10. How Should the Principle of Proportionality Be Observed?

In Latvia, several terms are used for the principle of proportionality.

When translating EU laws, “proporcionalitāte” (“proportionality”) is used. The English text of Article 3b(4) of the Treaty on the European Union (language in which most of discussion occurred):

The English text (in terms of content, French and German texts correspond thereto):

“4. Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties.

The institutions of the Union shall apply the principle of proportionality as laid down in the Protocol on the application of the principles of subsidiarity and proportionality.”

The Latvian text:

“Saskaņā ar proporcionalitātes principu Savienības rīcības saturs un veids ir samērīgs ar Līgumu mērķu sasniegšanai nepieciešamo.

Savienības iestādes piemēro proporcionalitātes principu, kas noteikts Protokolā par subsidiaritātes principa un proporcionalitātes principa piemērošanu.”

In English, the explanation of proportionality includes the principle of minimum governance: activities will not exceed the necessary ones. In Latvian, the word “will not exceed” is deliberately omitted, allowing civil servants to use also great governance with great regulatory framework.

The word “commensurate” does not include minimalism. It is to be noted that the translation was edited in Latvia before voting. Along with voting, it became an official version with an equal legal force. However, Latvian lawyers will hardly look up the text in languages in which the discussion of the draft project occurred for the correct interpretation of the text.

Historically, the principle of proportionality appeared in Prussia in the mid-18th century when the administration of Kaiser Friedrich

gained assurance that it was impossible to describe all cases encountered in the administration practice in the law. The conclusion was that a civil servant was not automate and he/she had to be allowed to think, make flexible decisions and deviate from the provisions of the law or regulations in certain cases. The legal principle stating that one should act in proportion to public interests got the name of the principle of proportionality, and already at the end of the 19th century the use of this principle obtained a crucial role in the German administrative system.

In Latvia, in the mid-90's State administration reformers largely copied the German model of bureaucracy, yet forgot to introduce the viability condition of this model – the principle of proportionality.

In German legal literature, the word “commensurability” is used instead of proportionality. Section 13 of the Administrative Procedure Law:

“Principle of Commensurability”

“The benefits which society derives from the restrictions imposed on an addressee must be greater than the restrictions on the rights or legal interests of the addressee. Significant restrictions on the rights or legal interests of a private person are only justified by a significant benefit to society.”

This formulation corresponds to the classical application of the principle in German administrative law. In the EU, proportionality is also used as a principle of public administration minimisation which was deliberately omitted in the Latvian text of the Treaty on the European Union. A range of politicians defend the idea of a small state administration, while civil servants fight it – exclude the word “small” from government declarations, fight against this term in the National Development Plan, etc.

The classical procedures for applying proportionality consist of three stages. To

verify actions appropriate for the interests of a private person (or authority of a smaller scale – the Republic of Latvia, local government):

1. the legitimacy of actions is verified (whether the goal is legal);
2. it is verified whether the offered solution (creation of an institution, activity, legal norm) is actually aimed at the previously verified goal;
3. proportionality is verified – whether the benefit obtained by a private person (smaller territorial authority, for example, State or local government) is proportional to public interests.

Example: the EU wishes to introduce a single PIT rate, declaring the following goal: to unify conditions of imposing a tax on labour force.

1. Legitimacy is verified instead of compliance with law. According to laws, the tax policy is within the competence of a Member State, there are only discussions about harmonisation. The goal to unify labour force conditions is legitimate since mobility would thus be facilitated. The goal is to comply with one of the EU fundamental freedoms.
2. It is verified whether the planned activity is aimed at the goal and it is established that yes, it is. By introducing a single rate, the situation in Member States becomes more equal.
3. The proportionality of an event is verified and a negative conclusion is made.

Salaries in different countries differ significantly. In countries with high performance and high salaries, it opens possibilities of financing services from local government (or state) funds. Household expenses remain at an appropriate level. In turn, in countries with a low salary the unification of tax rates will cause disproportionate public harm, and household possibilities of purchasing goods and services in a common EU market will change significantly.

Therefore, the obtained public benefit, i.e. higher mobility possibilities, is not proportionate to the public losses in poor Member States. Without passing the third inspection, compliance with the principle of proportionality is rejected.

Example: the State Audit Office wishes to extend the range of its activities and verify the finances, legality and expediency of activities of all local governments on an annual basis.

1. Legitimacy is verified. The Constitution states that the competences of the State Audit Office are determined by law. Such activities are allowed in the State Audit Office Law. The goal is lawful (arising from two laws). However, it is not legal, since it contradicts the principle of self-government. In the field of autonomous competences, the executive authorities of a local government are responsible towards the council in which they are the only ones entitled to assess expediency. In this moment, the test of the principle of proportionality is failed.

The example is made up. In Latvia, it is not accepted to interpret the State Administration Structure Law according to international agreements and the State Audit Office considers that expediency cannot be controlled with no limits.

We will continue to examine this situation. We will assume that the State Audit Office wishes to extend the range of its activities, regardless of the previously performed assessment. It offers another task – to assess the expediency of actions and finances of all local governments in the field of autonomous competence as well as legality, finances and expediency in the field of delegated competence.

2. Legitimacy is confirmed this time. Verification is legitimate; the same applies to expediency in the field of delegated competence.
3. It is verified whether activity will be aimed at the goal and lead to a positive conclusion.
4. Proportionality is verified within the narrower meaning. The proposal does not stipulate cancelling the activity of private audit. In countries that dispose of funds in a rational manner, public administration endeavours to avoid duplicating or multiplying procedures.

For example, by cancelling central government audit functions for the local governments of the United Kingdom, the procedure of private audit was introduced as in Latvia before. The proposal stipulates preserving expenses for private audit and significantly expanding the scope of State institutions and their activities.

Therefore, the proportionality test is failed and the conclusion on the second proposal is negative. Creation of institutions must comply with the principle of minimum governance, which in this case arises from proportionality.

If the State Audit Office modified its second proposal on stipulating the cancellation of private audits, it would be possible to establish compliance with the principle of proportionality. However, at the moment there would be another impediment – the principle of subsidiarity. It would be necessary to prove that the private audit has difficulties with fulfilling external audit duties, therefore State administration must interfere (the State Audit Office is one of State administration institutions that is not subordinate to the Cabinet of Ministers).

The answer in subsidiarity assessment would already be subjective and largely dependent on the belief of politicians to various theories.

2.11. May a Local Government Also Act Contrary to the State Policy?

It definitely may. It does not mean that a local government should normally act against it, yet it is extremely principal for this approach to exist. Firstly, it is related to the concept of shared sovereignty. There are exclusive fields wherein only the EU, only the Republic of Latvia, only local governments operate. If a local government decided to counteract in an exclusive field of State responsibility, it would be a law violation, for which the Saeima can dismiss the local government council and organise new elections.

A different situation is the exclusive field of responsibility of a local government. In this case, the entire public benefits from the fact that each local government can resolve the issue otherwise. By comparing results, it is possible to see who succeeds better. A local government can test different approaches and State administration can also learn from the results of local governments.

If liability is shared (the case most often encountered in politics), both parties should harmonise their activities. It cannot be in master-and-agent relations. Both parties have the right to their own opinion, yet the solution should be effective rather than wasteful.

The wish of central bureaucrats to overregulate the functions of local governments complicates the situation and reduces the possibilities of a local government to act individually. It increases the cost of services and reduces the competitiveness of Latvia. However, for the functions of shared liability, it is important for a local government to show more initiative and endeavour to improve the results of common activities.

It is to be understood that the right to self-dependence in the modern world increases along with globalisation tendencies. If once external policy was implemented by countries, now it is also done by the EU and local governments. In foreign policy a local government acts in the fields of its competence (for example, reduction of administrative burden, waste collection and processing, secondary education support). In these fields, it is entitled to individually select partners in foreign countries which may differ from partners selected by the central government. It is possible to restrict the right of a local government to its own external policy, yet it should be implemented in accordance with an international agreement of law.

3.

WHO MAKES THE LOCAL GOVERNMENT POLICY AND HOW



If the policy was made by the same people who make political decisions (deputies of the Saeima or local government council, ministry), this chapter might not be necessary. Practically, in cooperation networks, a local government is represented by different people, also those that are in employment relations with the local government. The open part of networks can be observed by anyone – particularly students and journalists. Therefore, it is important to understand that the ideal concept of a policy (thoughts about ideals differ as well) coexists with practical policy.

From the scientific point of view, practical policy is even more essential than the ideas of what the policy should be.

Development, adoption and implementation, supervision and assessment of the policy does not occur under ideal conditions. In

fact, by reading laws and policy documents adopted at different levels, a deceitful idea may occur that the management of the public sector is dominated by ideal legal principles, on behalf of which the representatives of the population approve laws. These laws should be fulfilled by robot-like civil servants that act “pursuant to procedures laid down in regulatory enactments” and “for the benefit of the entire society”.

This idealisation has no connection to science, since science can explain why this idealisation is extensively used in public relations between authorities and inhabitants. Within the framework of this Handbook, we will not analyse various motives why authorities use the previously outlined model of ideal policy.

However, we will mention several

fundamental concepts, providing short answers to several questions:

3.1. Who Determines the Local Government Policy?

Deputies of a local government vote for the local government policy (in exceptional cases – also local referendum). These deputies are politically liable for this voting towards their voters. In certain cases (when the law is violated), administrative, civil or criminal liability can be imposed.

Deputies themselves are allowed to initiate a new policy, yet often enough they are merely the persons editing and adopting a decision. The initiative can come “from above” (from authorities of a larger scale) or “from below” (from the private sector), or “from subordinates” (from executive institutions created by deputies).

In the modern world, the phenomenon called “the power of civil servants” tends to increase.

The greatest share of decisions is prepared by the employees of executive institutions. Therefore, the European tradition is to lobby particularly them on behalf of various groups of private interests. Mass media also propagates the need for “professional management”.

3.2. How to Use the Political Theory in the Local Government Policy?

Each theory applied in political science is a simplified model that might be expedient to use for resolving practical issues. This theory observes some of the conditions encountered in the life of the public and an individual, wherewith it is not suitable in all cases. The use of this model is justified if it is possible to obtain morally

substantiated and practically applicable results. Otherwise, it is necessary to search for another model that can be applied better in this case.

Particularly the limited nature of expedient application is the factor which determines that laws should not include doctrines or ideological norms, limiting to the observance of international fundamental rights, yet does not include economic and ideological theories.

In case of the State, it causes inconveniences. Along with changes to the ruling coalition, it is necessary to audit all laws one by one to determine whether ideological norms comply with other government declarations. These inconveniences can be by-passed in some way.

It is far worse in the case of a local government. No one can prohibit voters from electing a liberal in politics, a keynsianist in economics, and a decentralisation supporter. However, if the central government has developed draft laws and promoted norms of a different nature via the Saeima, it restricts the rights of this local government in a non-legitimate manner.

3.3. How Do Personal Interests of Politicians and Public Interests Differ and How are These Interests Interrelated?

Politicians are the same as other people. Their personal interests are related to the entire Maslov’s pyramid; the fact that a person is involved in politics means that he/she has satisfied fundamental interests and acts at medium and higher levels of the motivation pyramid.

Personal interests are selfish, even though they are exercised by decision-making in the interests of other persons (society of this or another scale).

WHO MAKES THE LOCAL GOVERNMENT POLICY AND HOW

Explanations of public interests are different and diverse; political philosophers have written about public interests for several thousands of years and public administration scientists – for hundreds of years.

The interim stage between individual interests and public interests is group interests. Group interests are to receive benefit for the group. The groups that are organised better and defend their interests more actively usually affect the policy more than weakly organised groups.

Public interest is the interest of a group or a compromise between the interests of several groups, unless this interest causes significant burden on a large part of society. Often enough, in implementing the public interest on a local scale, beneficiaries can be different persons if others agree that the activity favourable for these different persons is expedient or virtuous.

If any non-governmental organisation starts telling that it represents “the interests of the entire society” rather than their own group of interests, it is necessary to carefully study the sources of funding of this organisation. Cooperation democracy (by hearing out the opinions of different groups and integrating survey and discussion results in laws) is dangerous as it can cause an effect contrary to the declared values.

Foreign corporations as well as foreign security services often use particularly NGOs for expressing their interests, for getting involved in the established social dialogue with the best intentions, and for exercising interests about which the majority of society has no idea.

In any case, every speaker who stands for the interests of entire society should be treated with great suspicion.

3.4. Is It Beneficial for Local Government Heads to Implement an Individual Policy or Is It More Beneficial to Implement the State Policy?

Implementing individual policy is riskier, since one him/herself should undertake liability for the things done. At the same time, if one wishes to achieve lasting, substantial results, he/she still must risk. According to the principle of subsidiarity, the range of issues the local policy resolves more effectively than the national policy or EU policy is rather wide.

Depending on external factors and the internal policy situation, local government heads in the local government council choose different strategies of personal growth. Often enough it is useful to pretend that higher requirements of territorial authorities are implemented (imposing responsibility on them) while actually implementing their own selected policy.

This approach is applied by entire sectors. For example, the Ministry of Health purchases the master plan of healthcare organisation from the World Bank rather than admits that it has developed this plan itself.

Managers that wish to introduce changes in their organisation rather often invite a consulting company that organises the process consultation. The main task of this company is to create an illusion for employees that the changes proposed by the employees themselves are implemented.

At the same time, in many cases the voter expects that the local government will be managed by a competent and purposeful politician. In this case, one cannot hide behind the central government or consultants, one him-/herself must explain his/her policy and convince the voter about the results with figures.

3.5. In Which Cases Is It Beneficial to Know the Truth About the Performance of One's Own Local Government?

It is always useful for a policy-maker, policy adopter and policy implementer to know the truth about the results of their own activities. However, it is often more useful if this truth is not publicly available.

It is to be taken into account even by highly ambitious politicians. The majority of local policy processes occurs with many interacting factors. It is a rare case when the result is mostly affected by the activity itself.

3.6. To Which Extent Can We Disclose the Truth (Make It Publicly Available)?

The higher the set goals are, the greater the probability is that you will not attain your goals under the influence of external factors. Partial approximation of goals may seem insufficient. In honest work in the direction of the goal, there are a lot of impediments such as requirements set forth in laws and Cabinet Regulations, government's actions with resources, excessive control, changes to the central or EU policy, disinformation that affects decisions of the private sector, etc.

Therefore, there is a contradiction: on the one hand, openness is an indisputable principle of functioning of public power. On the other hand, the promotion of a local government product on the market is an art, wherein telling the truth does not always emphasise the part of the truth that is risky for publishing. There are all the possibilities for analytical journalism, yet the local government itself must work toward attaining the appropriate result for society.

3.7. What Should the Introducer of Innovative Solutions Expect in the Work of Local Governments?

In writing this Handbook for which the primary audience is local government politicians, we would like to state that the recognition of people expects those who create and implement innovative solutions. However, it is not so. Usually, those persons taking new paths are blamed the most.

At the same time, while taking new paths, you will get the feeling that you have performed to the maximum extent within your compass. It is the feeling of a work well done.

However, one should remember that both bad and good deals can be transformed into political dividends. People will not value you unless you take care of the assessment. A trader that does not engage in marketing is a bad trader. A politician that thinks only about the good product, but is unable to promote this product on the market is a bad politician. A politician that subjects to the pseudo-scientific pressure telling stories about independent and objective journalists, who will come to an interview themselves, since they will assess your deeds, is a bad politician.

Passive waiting would be similar to the introduction of good products to the market without ensuring that buyers will find your product tasty and healthy.

Therefore, along with the introduction of innovations, it is necessary to plan the transformation of these innovations into a political capital.

4.

LOCAL GOVERNMENT MANAGEMENT METHODS



The Charter (see the translation and de jure applicable (in English and French) wordings – M. Pūķis, 2010, 414-431) guarantees the political independence of a local government, and also stipulates different conditions for local government's autonomous (to be performed at its own responsibility) and State-delegated (representing the State) competences. The legitimacy of national legislation in restricting the independence of a local government should be commensurate to principles determined in the Charter, which have a higher legal force than the national legislation. However, for theoretical law to coincide with practice people should be ready to apply and use this law.

Local government politicians that operate in an actual economic, social and political environment divide their interests with expected results of activity. Even if they act absolutely self-dependently, not always one is willing to accept this fact. Often enough, it is useful to confess that a task was assigned or a regulation was set by someone else.

The sub-field of science – political analysis – considers several variants how the public administration policy is formed. To be able to distinguish the examined method from other widely applied methods, we will describe several of them.



4.1. Basic Notions of the Public Choice Theory

Before we move to the description of methods, it is necessary to describe reasons why local government employees prepare and meanwhile local government politicians adopt decisions. The scientific answer to this question is given by the Public Choice Theory.

According to this theory, civil servants and politicians act selfishly (maximise personal benefit). It does not mean that public interests are not discussed in the public space. Saying that politicians are selfish

is definitely not a good manner. However, in the 60's of the last century, efforts to develop the economics theory of the public sector encouraged Buchanan and Tullock to even use such a method as the private sector economics. In private economy participants of the economic process endeavour to gain profit (absolutely selfish intent), yet under market conditions selfish efforts lead to the public benefit. Supporters of the Public Choice Theory hope that it is possible to achieve a similar situation also in the public sector – competing personal interests (if there is good constitution and good laws) lead to economic and effective actions for the benefit of the public.

Even though James Buchanan received the Nobel Memorial Prize in 1986 in economics for the Public Choice Theory, many traditionally thinking political scientists still do not recognise this theory (for several thousands of years political science taught how to govern morally, yet it rarely analysed real processes wherein real people participate with their virtues and vices, with their own or group interests).

To be able to analyse the decision-making of the local government policy with scientific substantiation, it is necessary to take into account the real situation and real motives. At the same time, the tradition does not encourage speaking openly about the real motives of individuals, groups or political parties.

Selfish interests cannot be interpreted primitively as a wish to obtain more money. The selfishness of a politician and a civil servant can be manifested in the most diverse forms. For example, factors such as recognition, fame, proving one's own truth, a tendency to make a group of interests or even an entire society happy, a tendency to act ethically or a tendency to serve better to God are encountered in the most diverse combinations.

The majority of voters expect altruism (non-

selfishness) from a politician. Mass media, instead of explaining events with scientific substantiation, draw exaggerated attention to this aspect. It is rarely told about the anticipated economic or social results of government activities. The attention of readers or viewers is drawn to different minor aspects that address them with voter characteristics such as envy, malevolence, and hate. Under these conditions, an open dialogue regarding policy-making and actual goals is rather risky.

It is to be remembered that a politician cannot avoid risking. Neither can an entrepreneur in a private business. In both cases, it is impossible to precisely predict the outcome, since it is affected by many mutually contradicting factors. Exactly selfishness rather than care for society is often the basis of omission (refusal from risking).

It is also necessary to take into account that, in carrying out a dialogue with the public or management, a politician or civil servant must take into account the other side of the dialogue, its ability to perceive (assess) the said, and the expected respond. It largely explains why the true motives of actions are rarely publicly told about.

4.2. Balancing the Interests of Groups

If the autonomous local government policy is discussed, a local government has the freedom of action in decision-making. Even if there is a wish to publicly pretend that they did not make the decision themselves, it is actually assessed what effect the decision will have on those on whom the local government depends.

The case when the decision benefits all inhabitants of a local government, neighbouring local governments and the State (the interests which must be observed),

potential investors, representatives of the non-governmental sector, and other groups are encountered so rarely that the analysis of this situation can be omitted. The absolute and unambiguous benefit for “the entire society” simply does not exist.

Balancing the groups of interests occurs in several fundamental forms.

Firstly, voters elect their deputies from different lists. In the case of a fragmented political spectre, the interests of different groups will be represented in the council according to the feelings of votes about the things they expect from their deputies. The coalition most often consists of representatives of several groups, therefore the agreement on works to be performed (outside mandatory duties determined in laws) is already achieved within the framework of the coalition and its peculiar balancing of interests.

Even though Latvian laws preserve the leading role of deputies, an increasingly greater role is played by local government employees that develop in detail both the development programme and the budget. The budget is once again a mechanism of balancing interests. The size of institutions (number and salary of employees at local government institutions and companies) as well as recipients of the local government product arise from the way funds are distributed. Different interests can be assumed as the basis – interests of current entrepreneurs, potential investors, inhabitants of apartment buildings, inhabitants of a certain territory, disabled persons, etc. Distribution of the budget in favour of one group is equivalent to taking away the budget from another group. If we reduce the tax for one group of people, it causes difficulties to compete for other people.

Balancing the interests of groups will occur in preparing daily decisions and in perspective planning. In Latvia, each

group is allowed to freely lobby their own interests, meet with persons preparing decisions, participate in the meetings of work groups and political committees, hear the discussion of issues during council meetings. Until norms restricting lobbying are adopted, it is a crucial advantage of Latvia, since it allows preparation of management decisions of a higher quality.

Hence, each policy is based on interests. For example, if we cannot find an explanation for any national policy inland, most likely, the interests of some foreign or international corporations take place. Initially, it may seem that some non-government organisation or mass media propagate harmful reforms due to foolishness. However, if we take a more careful look, it is worth assessing the embassies of which countries these people visit or who pays for their projects.

Likewise, events in the territory of a local government are affected by different external factors; often enough they are of an ideological nature. For example, environmental groups invite to liquidate a melioration or refrain from using coastal areas. It seems that they care only for the preservation of wildlife on the planet. However, by means of a careful study it is possible to establish the groups of interests for which these proposals are beneficial.

Latvia has determined much lower thresholds for public procurements than it is requested by EU legislation. As a result, local government procurements are ineffective, taxpayers' funds are wasted, since the period for the introduction of useful activities is extended, morally obsolete technologies are purchased. Parasitic politicians gain profit while the public receives no effective public sector economics. It is beneficial for the countries that try to outpace Latvia in terms of economic development. It is beneficial for the groups of entrepreneurs that are not distinguished by productivity or innovations, yet patiently participate in competitions and

cooperate with procurement supervisors in delaying the process.

Even though policy, in terms of its content, is always the balancing of interests, it is formally manifested in different methods (procedures). According to the measurement of results, each method is of a different nature. This nature is determined by the interests of a policy beneficiary.

4.3. Command Method

Policy-makers can fulfill the task of some other public or private person (institution, official).

This method has different variants that differ in terms of form, yet their content is basically the same. As it has been mentioned before, there can be situations when the decision-making process looks like a command method only externally, while politicians actually have come to their decision individually.

Historically the most known modification is the Soviet system of executive committees. It was characterised by hierarchy at all levels of power – the greater the territory, the higher the power. A ministry was allowed to command the structural units of a local executive committee directly, bypassing the formal management. The education department of a district executive committee was subordinate to the Ministry of Education. Any “republican” structural unit was subordinate to the relevant all-Union structural unit. The restoration of this situation is the dream of Soviet lawyers and their apprentices; from time to time, different structural units of central authorities wish to restore the elements of the system of executive committees.

The example – Putin's Russia, where initially the vertical structure of power was restored and total control over mass media was adopted, while later an army was developed for the purposes of attacking neighbouring

countries – is close and understandable for centralists. Unfortunately, practice shows that certain ministers do not know yet that the times of executive committees have ended (see Grinbergs' case, wherein the minister Krišjānis Kariņš decided to give orders to the chairman of the local government council, Judgement of the Kuldīga District Court of 22 May 2007 in O.Grinbergs' case).

Latvian legislation does not stipulate a possibility for the central government to give orders to local government employees, excluding cases particularly stipulated in law. For example, the responsible minister may, by a substantiated order, temporary dismiss (until trial, if the local government council disagrees) the chairman of the council from the office. However, the application of the command method in a pure form is not stipulated in laws.

The command method can be indirectly applied upon the initiative of both a local government and the central government, as well as the EU.

EU competence is limited; in the most crucial matters of local government liability, the EU is allowed to adopt laws binding to Member States. Therefore, the EU implements its policies with a menu of activities, wherein a Member State may choose to use EU funds corresponding to the EU policy. Latvia does not have to implement EU ideas in the social or education field, yet it can receive EU budget funds only if it implements EU ideas. Since the funds are used in the territory of a local government, the wish "to attract funds" leads to the explanation that the project has been selected for a reason and in a form ordered by the EU.

Actually, no command is received, yet if you wish to develop your territory by means of additional funds exceeding possibilities ensured by the balancing system, you implement projects of a doubtful benefit telling that the EU (or relevant structural

units) ordered so. In general, experience suggests that this non-critical choice in implementing any project attracted for one's own territory has allowed to revive local economy and achieve comparatively better results than in more selective local governments.

The application of the command method is also facilitated by the created planning system (particularly procedures for how plans are harmonised between the subjects of public authorities and with "society"). The development programme of each smaller territory should comply with the development programme of a greater territory. Hence, the programme or action plan of a greater territory (EU, country, region) can be perceived as a command for a smaller territory.

Pretending that someone is giving you orders can be encountered just as often as actual commanding. It is explicitly visible in the activities of sector ministers. Not willing to undertake any liability for reforms, Latvian politicians pretend that some "higher-ranking organisation" has assigned these reforms. In turn, joining the EU was used to cover different changes to State administration and relations between the government and local governments, in which no one in the European Union showed any interest and which actually complied with the interests of groups in Latvia itself. However, it was told that Europe demanded to do so. For this purpose, it was enough to convince some medium-level employee of the European Union to sign a letter that corresponded to the interests of Latvian lobbyists.

In this status, national politicians also often use organisations such as the World Bank and the International Monetary Fund (IMF). For example, in the field of healthcare, the ministry regularly imposes liability for structural and regional subordinates on the experts of the World Bank since mid-90's and pretend that it itself has no connection

thereto. Actually, foreign consultants choose local advisers responsible for the acceptance of work, practice political law instead of political analysis.

Another type of the command method is excusing oneself by the political norms of a previously adopted law. For example, the State Administration Structure Law contains a record (Section 87) that restricts the right of State administration to found companies. The State Audit Office endeavours to extend these restrictions, thus increasing the cost of fulfilling public functions. An excuse for promoting ineffectiveness was dedication to one simplified economic theory that was stipulated by political norms in law.

Political norms are adopted in the interests of groups; however, after regular elections, if the representatives of opposite views win, these legal norms must be changed to the opposite ones. It negatively affects development, promotes the feeling of insecurity by entrepreneurs and inhabitants. Linking laws to one social, economic or political theory in a pluralistic society is undesirable.

The results of the command method is characterised by quantitative measurements. In this case, the starting point is the fulfilment of orders given by the commander. To describe the achievements (or failures) of a local government, it is enough to stipulate general results of the local government that are compared to those to be achieved in the country or a region.

From the point of view of measurement, it is the simplest case. Performance of a local government can be described by some common indicator that is applicable to the entire territory of the local government. However, statistics do not provide such an opportunity in this case either, and many other important data on the performance of a local government are unavailable in the RAIM database maintained by the State

Regional Development Agency (SRDA).

4.4. Bargaining Method

There are several methods that cause the need for compromises in local policy.

Firstly, the majority at small councils is ensured upon the agreement of representatives of several lists. Those who have agreed on a candidate to be supported for the position of the Chairman of the Council have the right to demand that the interests of the group represented at elections are observed in decisions. The chairman should organise the decision-making process so that the majority group is satisfied.

The stability of a local government is also ensured by the involvement of opposition deputies. Therefore, consultations on disputable questions can cover a rather wide range of involved participants. In these consultations, no local group of interest obtains full majority. If this majority is obtained by applying the procedure of "democratic centralism" (the mechanic majority imposes its will on others), it can be the beginning of instability of power in the near future. Therefore, during negotiations, a solution that does not fully satisfy anyone, yet partially resolves the problems of each group must be considered.

Secondly, a local government ends up in both cooperation and competition relations with other local governments. If local governments are unable to agree with each other, the benefit is ensured to some third party. This third party is most often bureaucrats of one or several sectors, who constantly care for increasing their resources and additional control possibilities. If local governments are unable to reach an agreement, new buildings are constructed for ministries and agencies, new civil servants, who make up more and more new restrictions that delay the work of a local government, are hired.

Thirdly, local governments have competition relations with sectors. In dividing the State budget, the sector management is in line for funds “for new political incentives”; moreover, sectors endeavour to compete with each other for the possibilities of using investments. Local governments get involved in negotiations with the government every year both through the mediation of LALRG and as representatives of smaller groups of interests.

Political bargaining is a way of representing pluralism. However, it can lead to ineffective decisions, even though as a result the benefit of different groups of interests is more proportionate than in observing the interests of only a certain group.

During political bargaining, each party fulfils its own strategic and tactical tasks. Crucial elements of bargaining include information and disinformation. Only in this case both parties are interested in asymmetrical information. It is good to know the facts unknown to the other party.

For example, the Ministry of Finance usually introduces budget changes to actual prices. Along with a growing economy, inflation occurs. With each next year, the same amount of money allows to purchase less labour force, goods, and services. However, by showing a slight increase in the amount of money, it is possible to hide the actual decrease in possibilities as compared to the previous year.

Another widely spread disinformation approach is the use of the indicator that does not describe the problem to be solved. For example, if all attention is focused on the budget deficit, it is possible to hide what exactly is happening with the ratio of the debt to the gross domestic product. If it is possible to bring this indicator to the foreground, it is possible to hide where the increase in revenues is actually used.

Disinformation could make use of a reference to legal doctrines, requirements of external institutions, numeric indicators that once were possible to entice into planning documents.

Another element in the bargaining process that is more important than disinformation is reducing the unity of the other party. The fragmentation of the government is based on different interests of coalition parties. The fragmentation of local governments is based on a possibility of subjectively resolving investment issues, naming some local governments as perspective and others – having no prospects, as well as on a possibility of determining different standards for different groups of local governments.

During bargaining, each of the parties mostly uses the legal political profession (search for ways of substantiating the necessary decision) rather than political analysis (scientific study in which actual consequences the offered solution will be provided).

By bargaining one uses the same methods as during a war. The objective determination of truth is not the best method. “Measurements” must serve the following goals:

- Disinformation;
- Exaggerating own expenses;
- Reducing the expenses of another party;
- Offering statistics and comparable data favourable for one’s own party.

Starting from 2009, the Ministry of Finance used all these methods in negotiations on the next annual budget with both LALRG and the International Monetary Fund. From the point of view of the central government, it seemed logical that thus it

would be possible to improve the position of the State – to deceive local governments (increase in the State budget at the expense of local governments) and deceive international lenders (ensure that Latvia would be unable to repay the borrowed money as long as possible).

This type of measurements help at the first stage of the bargaining process only. Activities of this type do not lead to a compromise. In order to justify the compromise, it is necessary to offer calculations on mutually favourable (which are simultaneously mutually unfavourable) variants that must describe the benefits and losses of each party.

In this case, it is also necessary to have data on territories, including data that describe the internal administration structure of a local government and the economy structure of a local government, are necessary.

4.5. Incremental Method

The term “incremental” can be replaced with the Latvian term “pakāpenisks” (gradual). However, to find literature in foreign languages on this method it is better to use an internationally recognised term. In Latvian literature, the method is hardly studied and analysed.

A local government politician can have a different attitude to his/her own (or others’) previous work.

It is possible to suspect previous politicians (or employees) whose activities were inefficient or even harmful. In such a case crucial changes are necessary, the wish to assess everything and to change the majority of measures and institutions occurs.

Often enough, an extensive reform is declared not because of real problems. Instead, it is used as a method for self-

convincing politicians or civil servants as a tool for replacing employees with the representatives of their own party, etc.

It is possible to respect the work done before and assume that previous employees have endeavoured to do the best they knew and was possible. In such a case great changes are not necessary; it is necessary to find several elements, wherein changes can improve the already existing and functioning system.

The incremental method is not that effective externally, yet it can ensure good results. Previously it was assumed that we developed the incremental method suitable for well-functioning systems, and comprehensive reforms had to be performed in the weakest systems. However, the choice of method is within the competence of politicians themselves and there has always been sufficiently many local government heads that prefer incrementalism in their work.

The method is largely justified by the 20/80 Rule named after an Italian economist of the 19th century, Vilfredo Pareto. According to this principle, 20% of activities produce 80% of the result and vice versa – 80% of ‘as if’ result-oriented activities produce 20% of the result.

Politicians are often completely unwilling to achieve the result they have stood for. In this case they develop an action plan including many measures that belong to those Pareto’s 80%, which each individually produce a rather small result. However, bustle is publicly shown, voters think that a lot is being done and, after taking various measures, the result will be achieved.

For example, to combat informal economy, it is necessary to cancel various tax reliefs that cause unfairness towards those to whom these reliefs are not granted and force them into informal economy. Instead it is possible to invent more and more new reliefs for close groups of interests and

include in the plan hundreds of measures that make an impression of a tremendous fight against tax dodgers.

For example, to reduce depopulation it would be necessary to promote increase in remuneration which is achieved by increasing productivity. Instead it is possible to increase birth rate, promote employment (by paying small salaries), appeal to patriotism, and take other ineffective measures that will most definitely not reach the declared result, yet create an impression of activity in the promised direction.

The most crucial component of the incremental method is to find the critical stage of the chain that will eventually determine the result.

In this case, there is a different point of view for measuring the result. The anticipated attitude, which is planned to be achieved by means of minor improvements to the functioning of a local government, is in the foreground.

The functioning itself remains largely unchanged. These minor changes themselves do not suggest the approximation of the set goals. The measurement of goals is the most difficult element. It is rather easy to describe the work done. It is rather easy to determine the effects of the activity. It is far more difficult to determine whether the set goal is being approached.

4.6. Rational Method

It is manifested as an organised process consisting of four stages: determination of goals, adoption of a policy, implementation of the policy, and assessment of results. The process is cyclical; during each stage, it is possible and necessary to edit the previously outlined goals and methods of attaining them. The method is based on a belief that employees are able to formulate to politicians causal relationships that will lead to necessary effects.

The official planning system fully reflects the rational method. The rational method is based on an assumption that it is possible to choose the principal goal (mission of an organisation), select goals (that eliminate the factors hindering the mission and develop the factors facilitating the mission), develop tasks correspondent to the mission (that approximate the selected goals), select effective results, and make measurements.

Often enough, the use of the rational method is only formal, since the central government actually implements the command method. The basis for it was created at the beginning of the 90ies when the decentralisation of finances was only partially implemented. At the time financial freedom was introduced for fulfilling regular (mostly – local government's mandatory) functions, yet the central government's control over the investment policy was preserved. Individual local governments were able to obtain additional funds for resolving development issues, while others were unable to do so.

To stimulate the "fairness" of this subjective process, a planning system wherein each local government determined its own priorities was created. The central government pretends that it supports investments in weak local governments, the priorities determined in the development programmes which coincide with the those set by the State. As a result local governments quickly discovered that the development plan should be developed similarly to a menu. For more on the menu principle, see M. Pūķis, 2010. Using a development plan as a menu, it is possible to "attract funds", create workplaces and carry out other activities that indirectly improve the situation, even though they do not resolve any fundamental development issues of a local government.

However, the rational method is also applied for implementing the actual priorities of a local government. It can be used as a strategic management tool of a local government.

4.7. Ideological Method

In this case, the decision-making process is based on some ideology in which the decision-maker believes.

Almost all political parties and local governments – also associations of voters, develop their programmes in an eclectic manner. This applies to both Latvia and the other world. Even though you will be able to find a certain trend in the programme of a party, usually you will find elements of socialism, liberalism, minarchism, feminism, nationalism as well as green and other ideologies in each programme document.

It is crucial that local governments are characterised by the joining of a wide political spectrum into one coalition. To be able to work, it is necessary to give way to the views of each coalition partner; therefore, one area of a local government's activity is dominated by one ideology, while another area – by a different ideology.

In this way or another, individual decisions cannot be explained other than as the application of some ideological dogmas (sorted waste collection unless recycling is organised is an example of application of green ideology; teaching the Russian language since the 4th grade – an example of application of the nationalism ideology; tax reliefs to the poor – an example of the socialistic ideology).

The ideological method is usually characterised by economic disadvantageousness. If it is clearly visible that the result will worsen the economic situation, most likely this result is based on some ideology, the supporters of which thus endeavour to impress their voters.

5.

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS



Is it actually so that competition is always good and protectionism is always bad? Is there actually a free market that optimises supply/demand relations? Is it actually more favourable to save rather than to spend? When is it allowed and when is it necessary to found a local government company? Critical judgements in these and similar matters are encountered so rarely that answers are based on facts and their analysis. All these questions are crucial for the participants of cooperation networks.

There are several stereotypes that the majority of lawyers, bureaucrats and journalists accept as the white truth, even though practical experience suggests the opposite. If the majority of the public believes in these stereotypes, it is favourable for a politician to repeat them. If the majority of the public believes in these stereotypes journalists will earn more by spreading them rather than by

bothering themselves with the analysis on and the issue of how to prevent deceit.

Politicians and economists adopt decisions under the circumstances of incomplete and nonsymmetrical information. Stereotypes dominating mass media are only one source of delusion. Another source of delusion can be gaps in education. One more – conscious or unconscious concealment of data.

Over the last 25 years, a lot of work has been done to decrease the level of education and science in Latvia. Erroneous decisions lead to the separation of science from industry and technology development, early specialisation was interrupted (with minor exceptions), also in exact sciences. Practically nothing about the economy and management of the public sector is taught at school.

Those hoping to be re-elected based on a primitive propaganda and people's lack of understanding about the EU, distribution of national power and responsibility of local governments are not satisfied with this situation. However, it causes serious problems if we expect improvements for our State or our local government.

An example of hiding data is statistics. There are so minimal data available on events in a local government that justified evaluation and comparison is almost impossible. Several excuses, including lack of funds, are found for that. However, the management of a local government requires comparable data on cities of the region, parishes, villages and populated areas of the region, necessary data on taxpayers and the situation in economy sectors in the breakdown of territories.

The more misleading information is that the less different alternative economic and social theories are known, the smaller the chance to make a truly optimal decisions there is.

The economic decisions of the public sector are made under the conditions of different economic theories and different ideals of belief.

5.1. The Principle of Subsidiarity as the Basis for Choice on Whether to Interfere

This principle is about interference. Should the State, a local government, the European Union interfere in the personal life of people? Should the State decide instead of a local government? Should the EU decide instead of Latvia? The answers to these questions can be found by applying the principle of subsidiarity.

According to this principle, matters that a person can successfully handle should be the full responsibility of this individual or person. Likewise, the State does not interfere

into activities of business companies in cases when they themselves are successful and pose no threat to public interests. However, a local government, the State and the European Union have the right and the duty to interfere if private persons require assistance.

If public persons decide to interfere (they receive the mandate from their voters, on whose behalf they decide on the expedience of interference), it is preferable to decentralise responsibility to the possible extent. The priority to help by interfering is given to a local government, then to the planning region, then to the Republic of Latvia, and, only if each of these public authorities is unsuccessful, to the European Union.

The European Charter of Local Self-Government determines several exceptions when centralisation is chosen instead of decentralisation; they are the following:

- economy or effectiveness assumptions (when the centralised system achieves the same or better results at a lower cost);
- the scale of the task in terms of content and sense (when the representatives of the public consider that homogeneous actions are necessary within a territory wider than the territory of a local government or the State).

The principle of subsidiarity as the fundamental principle of the political science in relation to the separation of powers is a theoretical reason why the interference of a local government or the State can be justified.

More detailed means for the analysis of this theme refer to the economic science – the economy sector of the public sector. Reasons why the government must interfere in the area of private life include market failures and governance failures.

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS

5.2. Main Types of Market Failures

The word “deficiency” complies well with the Latvian life passion. We endeavour not to offend anyone. The English word “failure” has a lot wider meaning – fiasco, mishap, catastrophe. In any case one should understand a lot more with the Latvian word “nepilnība” (deficiency) – inability to operate in an effective manner, inability to achieve a publicly useful goal in an effective manner.

If the market (competition of companies, striving to gain profit) fails to ensure the attainment of publicly necessary goals, a local government or the State has the right and duty (relevant representatives are elected for ensuring the public benefit) to interfere. There are several types of interference – creating an own business company or a business company belonging to a local government or the State is only one of the methods of interference.

Extensive scientific literature is devoted to the question “What is market failure?”. Over a century, different authors used different terminology and discussed this question from the point of view of different ideologies (system of economic, political, ethical views). Since the main conclusion of local democracy is pluralism, different local governments are allowed to resolve similar situations differently, reflecting the dominating views of their own voters. At the same time, the economy of the public sector as a field of science describes the main types of market failures.

5.2.1. Public Benefits

Public benefits are the benefits ensured to the entire public (of Europe or the State, or a local government). More rarely, it is achieved directly (for example, free public transport to everyone); more often, direct beneficiaries are few or several, yet ensuring these benefits is supported by the relevant society.

Theoretical literature formally defines the public benefit by distinguishing it from other products (in this case, from goods) by two properties:

1. they are available to everyone;
2. in providing a benefit to one, the possibility of others to receive this benefit does not decrease.

Goods that end up on the market as the products of entrepreneurship have the opposite features. Their numbers tend to be limited. With one person receiving the product, it becomes more rare and its price will possibly increase.

In practice, the concept of the public benefit is also used when any of these properties is determined as a goal, yet it cannot be fully achieved. For example, kindergartens are a public benefit, even though the number of places therein is not always sufficient.

A decision on whether and to which extent certain products are a public benefit is to be made politically. For example: education, healthcare and public transport are recognised as public benefits, because it is decided to ensure a greater or smaller equality of rights to all the recipients of these benefits on behalf of the public.

Public benefit to some people can be simultaneously “public harm” to others. For example, a prisoner normally does not perceive the deprivation of liberty as a benefit for him-/herself, yet it is perceived as a public benefit by others who wish for the prisoner to be punished, tortured or educated by their order.

5.2.2. Negative Externalities

In many cases, an entrepreneur that produces goods at his/her company poses a threat to both his/her employees and other inhabitants. If we assume that the actual main motive of the entrepreneur is profit, it is possible to cause harm to the environment, security,

quality of goods. The totality of these and similar phenomena in the economic literature is usually named “negative externalities”.

For example, if important resources (forest, water) are only within the competence of the profit receiver, the full use of these resources will be possible. At the time, forests were thus destroyed in many countries.

If the burning of dangerous waste was carried out only for the purposes of gaining profit, the pollution dangerous to life would be promoted.

An example that vividly shows the nature of negative external impact is the opening of a higher education market. If this field is dominated by competition and income of higher educational institutions fully depends on the number of students, higher education will become increasingly more similar to the trading of diplomas after some time. It leads to a drastic decrease in the technological progress and other negative consequences.

5.2.3. Monopoly (Defective Competition)

A monopolist can determine the price. If the goods produced by the monopolist are necessary to everyone (they have no good replacements), everyone is forced to overpay significantly.

If monopoly belongs to the State or a local government it is possible to manage it in an ineffective manner (unnecessary employees, outdated technologies, poor-quality services for a high price).

It is even worse if monopoly is private. It causes temptation to use this monopoly for short-term private goals with consequences for the sector, welfare or nature.

Regardless of how monopoly has formed historically (surplus from the centralised planned economy as natural monopoly due to the scale economy as the result of a merger prohibited by law), it is deemed as market deficiency in its essence.

5.2.4. Strategic Interests

Strategic interests include everything that is not included in previous market failures. Strategic interests are related to competitions between the EU and other economic and political regions of the world, competition between countries, competition between local governments. Each public person endeavours to defeat competitors for the benefit of its inhabitants.

A local government's competitors are both the State (if competences are not clearly divided, as it is in Latvia and the majority of other countries) and other local governments. Being a competitor or an ally is not an absolute concept. Local governments are competitors in some areas and natural allies in other cases.

Local governments (unlike states) do not fight with other local governments. However, there is constant competition for the following:

- human resources; a local government is interested in attracting smart and skilful people to its territory;
- State grants and target grants that allow to develop the base infrastructure better;
- private investors that provide additional possibilities for increasing the welfare of inhabitants;
- projects to be used for improving management.

To implement strategic interests, purchasing goods or services from the private sector is not always the best way. During competition a local government strives to achieve comparative advantages – to achieve greater influence on the decision of the central government, to change the structure of the local economy, to make its lifestyle more attractive. In these cases it is impossible to expect when the competition of private persons on the market will naturally approximate desirable goals.

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS

5.3. Main Types of Governance Failures

The sources of governance failures can be both legislation and political activities. Often enough, they are closely interrelated; it is even difficult to distinguish which is a hen and which is an egg.

Government failures are often related to the confrontation of views – politicians of a greater scale are so willing to be “fair” in the eyes of their voters that the negative or social impact of decisions, which is particularly manifested on the scale of a local government, is not taken into account. Therefore, a local government must think of ways to eliminate governance failures by lawful means or at least reduce their impact.

Those guilty of causing government failures can be found at all levels. It is the European Union, which becomes increasingly more bureaucratic and ineffective with each year. It is the Republic of Latvia, which increases the number of laws and Cabinet Regulations and duplicates institutions every year. It is a local government that happened to make non-optimal decisions that hinder effective functioning of the local government later.

5.3.1. Overregulation

At the time, it was enough with ten refugees for Moses to put people's thoughts in order and ensure certain public order. There are so many modern laws and regulations that a person is no longer able to know all of them. Every now and then politicians try to stop the avalanche of Normativism appear, yet the progress is currently insignificant.

Theoretically, the European Commission recognises overregulation as harm, yet the reduction of overregulation has never resulted in effective activities. The same applies to the incentive by the President of Latvia Andris Bērziņš to reduce the number of laws and amount of regulatory norms. The government

adopted the programme of the Ministry of Justice, which as if resolves the issue, yet no one is measuring the weak increase in the number and scope of legal norms.

On a local scale, overregulation has direct and harmful consequences. The more regulations are adopted on the organisation of education or social assistance, the less possibilities there are to optimise the provision of services according to local peculiarities. Due to this regulation, an impression is created that equal and fair regulation is ensured in the entire country, yet indirect losses caused by this regulation are not calculated.

One of the most explicit examples of overregulation is procurement procedures. The European Union introduces these procedures to promote competition in the European Common Market. Therefore, complicated procedures, the fulfilment of which requires significant time, are planned with high procurement thresholds. If Latvia determined thresholds at the level of EU requirements, it could save a lot of public funds. Yet, domestic legislators have overdone it – complex procedures are introduced from the lowest possible thresholds.

Overregulation tends to be based on both overdoing and incorrect theoretical guidelines. For example, it is incorrect that only competition is good. In certain cases, a positive effect can be achieved by both competition and local (also national or EU) protectionism. The art of politics is to determine the correct balance. At the same time, a one-sided approach (fundamentalism) usually results in losses or squandering.

Indirect losses can be calculated if the costs of services with optimised organisation and organisation stipulated in laws and Cabinet Regulations are compared. A large share of local government heads calm themselves with a thought that thus employment is increased. The more regulation there is, the more staff places are taken, and the more

additional expenses are made. However, sooner or later we must come to a conclusion that the key to the welfare of inhabitants is productivity rather than the maximum number of workplaces.

The government of the United Kingdom took a range of measures to reduce overregulation. A principle was offered that when a new legal norm was adopted, it was to be indicated which other form was excluded. Every year it is planned to reduce the texts of legal norms by 5%. However, the results of these measures will be observed only several years later. Likewise, Normativism has much support in the United Kingdom.

5-3.2. Harmful Prohibitions

The modern world is not that simple as during Moses' times. Life, health and nature protection laws and Cabinet Regulations or regulations of a local government stipulate different prohibitions. Even though prohibition itself is acceptable (local government within autonomous competence operates within the limits of law – it is allowed to do everything that is not prohibited), its abuse causes problems.

Examples of prohibitions:

- a local government cannot carry out business activities (there are complex procedures determined for proving the need for exceptions);
- a local government cannot alienate property necessary for the fulfilment of its functions (it hinders optimising the rational use of properties);
- employees of a local government cannot freely combine positions (restrictions for preventing the conflict of interests must be observed);
- full costs cannot be collected for services (hence, a chargeable service turns out to be unjustifiably cheaper than the relevant private service).

A law-abiding local government cannot violate prohibitions, yet it can think of a lawful form on how to reduce the harmful effects of prohibitions.

5-3.3. Excessive Control

The by-product of Normativism is excessive control. Even though Latvia has joined the norms of international laws that make the principle of proportionality binding to Latvia, both legislators and civil servants endeavour to avoid observing this principle.

Bureaucrats usually use the possibility of creating additional institutions to the maximum extent and hiring therein the greatest possible number of employees. These employees do not only verify the local government (any its institution), they also control each other. The activity of many controllers causes losses over time, second or third control in a row rarely discovers any crucial violations.

Many controllers usually have little understanding of local government's competences, they rarely distinguish autonomous competence from that delegated by the State. Often enough controllers think that a local government is only allowed to do things stipulated by law, which is profoundly wrong.

Returning to example of the United Kingdom. An analogue to our State Audit Office, i.e. National Audit Commission, has been operating there for over 40 years specifically for local governments. On 1 January 2015, this office was liquidated, introducing competitions for conducting a private audit. However, there was never a situation when two controllers would control the same thing.

Also in this case, it is impossible to avoid control stipulated by law. However, it is possible to search for a form wherein control conditions would be simpler.

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS

5.4. Actions in Case of Governance or Market Failure

A local government has several forms of response to both types of failures. In each particular case, the most optimal form must be selected; there might be no need to found a business company to reduce a negative impact in each case.

The main forms of response can be analysed with a different degree of detail. Dividing them by functional groups of activity, we will obtain the following possibilities:

1. regulation (a local government issues binding regulations that reduce the market failure or partially reduce the effects of governance failure);
2. administration (to supervise how binding regulations of a local government or State legislation are observed, to punish violators pursuant to procedures laid down in law or binding regulations);
3. provision of free or partially chargeable services (costs are covered by the local government budget or costs are divided by the budget with the recipient of a service);
4. non-profit (social) economic activities when the aim is not profit, but a local government provides chargeable services or produces and sells products for a charge (usually such economic activities occur concurrently in private entrepreneurship);
5. entrepreneurship (establishment of business companies; they operate concurrently to private entrepreneurship);
6. facilitation (including the allowed "State aid" to entrepreneurship, including aid to the organisations of organised civic society);
7. external procurement (when a local government purchases goods or services, or capital);

8. public or private partnership or concession, when a local government shares responsibility for the provision of certain public benefit with a private partner.

To prove that the response to governance failure or market failure is exactly one of the eight aforementioned options, a wide analysis would be necessary. However, the majority of possibilities automatically become irrelevant. It is usually enough if several most obvious alternatives are compared.

5.5. Procedure for Applying the Principle of Subsidiarity

The principle of subsidiarity is used to prove that a local government should resolve a particular issue (Figure 1).

It is best if the private sector (an individual, family, entrepreneur, non-governmental organisation) resolves its issues individually. In that case, a local government is not troubled, there is no need for regulation or other interference.

If a governance failure is discovered (as it has been mentioned previously, such failure is possible on the scale of both the EU and the state as well as local government), it is a reason for a local government to interfere with any of the aforementioned eight solutions.

If a market failure is discovered (one of the aforementioned four types, the market does not ensure the anticipated result useful for the public), it is another reason for interfering with any of the aforementioned solutions.

By consequently carrying out activities indicated in Figure 1, it is possible to find substantiation for interfering or not interfering. Further, it should be necessary to choose the type of interference. In practical cases, a local government might have already interfered in activities of the private sector. In such a case it might be about searching for better alternatives.

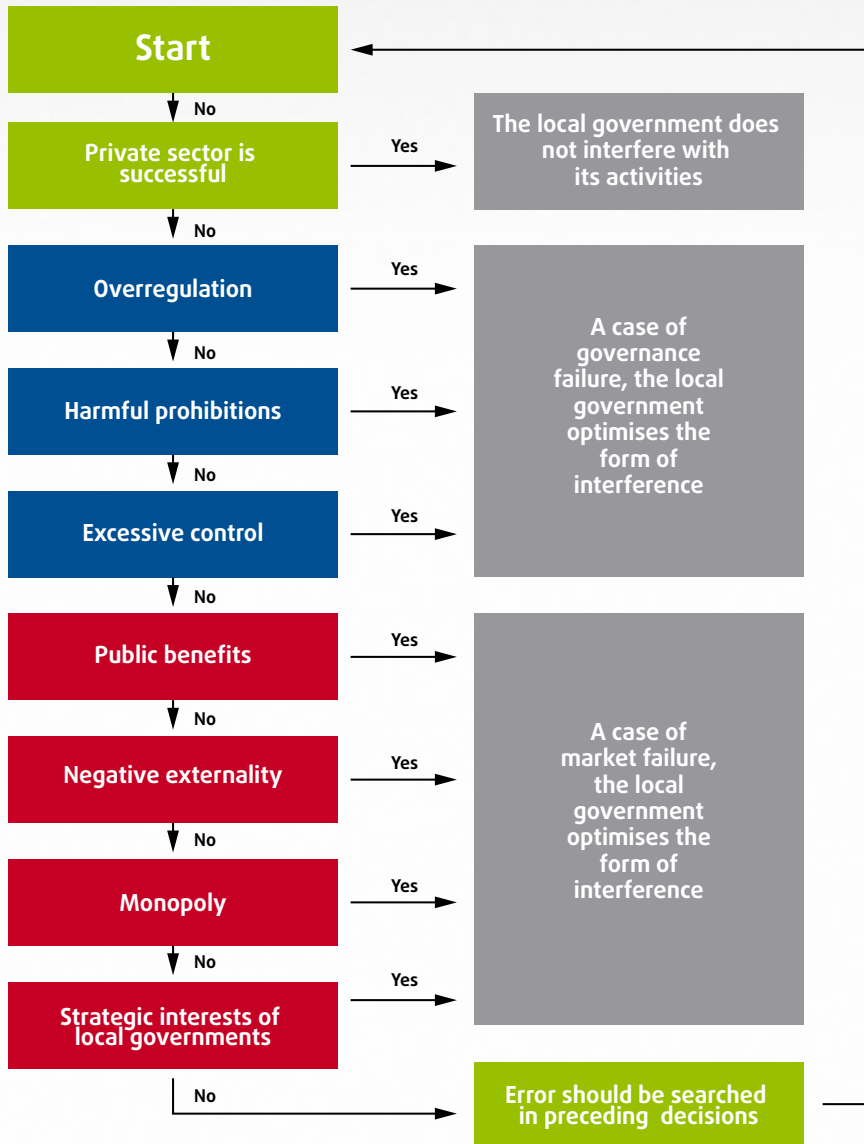


Figure 1. Algorithm for the local government's decision on interference

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS

In searching for the best solution, several most acceptable local government's responses out of eight can be compared. It would be the best to compare several selected alternatives by using the scheme for applying the principle of proportionality.

5.6. Procedure for Applying the Principle of Proportionality

The principle of proportionality has a shorter history than the principle of subsidiarity. Nowadays it has become the theoretical basis for determining the degree of interference (scope, necessary evaluation of institutions).

Initially, the principle of proportionality was used in administrative law in countries, the systems of which Latvian state law scientists included in the "range of laws of continental Europe". At the time, while trying to create an ideal "state of law", politicians and bureaucrats came to a conclusion that the precise fulfilment of laws might often be harmful. Therefore, a civil servant (institution) that applies the law is given certain flexibility – the duty to assess activities stipulated by law and actions of authorities in proportion to the goal. The tradition of three-stage proportionality verification was introduced:

- It is verified whether the goal of offered solutions is lawful (whether relevant activities are meant for attaining the goal prohibited by law (in case of local government's autonomous competence) or stipulated by law (in case of competence delegated by the State to a local government)).
- It is verified whether the offered solution actually approximates the indicated goal (it may seem that the set goal is actually moving away, therefore it must be justified that

movement occurs exactly in the direction of the goal).

- It is verified whether the effects of the activity are proportionate to the obtained public benefit. It is important that the effects of activity are as minimum as possible; otherwise, the interference of a local government will reduce the initiative of the private sector, and start troubling institutions of the public sector to fulfil their duties in a cost-efficient and effective manner.

The Treaty on the Functioning of the European Union attributes particular importance to the principle of proportionality – it emphasises efforts to create minimum governance. The European Union, in carrying out any activities in the field of shared competence, does so to the minimum extent by promising to refrain from carrying out any activities that would exceed the impact stipulated by the Treaty.

Application of the principle of proportionality to one of eight responses on the market failure or government failure (entrepreneurship was one of eight responses) makes it possible to act as follows:

- determining the common goal for one or several solutions and verifying the legitimacy of the goal;
- assessing evidence that the goal will be approached within the framework of the solution for each solution;
- verifying whether the solution does not stipulate everything necessary for the goal and selecting the solution that interferes in the activities of the private sector to the minimum extent; minimising the number of activities and civil servants.

By the third stage, proportionality is verified within the narrower meaning. Anything that reduces the bureaucratic burden and promotes the incentive and responsibility of involved parties is proportionate.

5.7. Example – Decision on the Local Government’s Mass Medium

We will discuss a particular example. Mass media and politicians of managing parties have commenced conquering local government media (newspapers, television, newsletters). A seeming reason is competition with the private regional press. The main object of attack is advertisements published in local government periodicals in different cases. However, the most radical attackers wish to prohibit local governments from preparing materials that “resemble journalism”.

By going through the scheme in Figure 1, we have established the following:

- The private sector is unsuccessful (over the previous 25 years a negative attitude has formed; it is not based on the reflection of functions, rights, duties, achievements and failures of local governments, but is mostly encouraged by offering one-sided information or even disinformation).
- By examining possible market deficiencies, it is to be admitted that the promotion of local government’s products on the market is a **public benefit** the private sector fails to ensure; replacing only public media on a national scale may result in public **monopoly**, propaganda of only ideology of ruling parties, reducing the possibilities of expression to a much wider political spectre that exists in local governments.

- The promotion of a local government’s products on the market complies with the **strategic interests** of the local government; it is necessary in competing with other local governments.
- By examining possible governance deficiencies it is to be admitted that:
 - there are no EU deficiencies, since the EU does not restrict the media of parties or local governments in any means;
 - there are existing and potential governance deficiencies; the Ministry of Culture prepares harmful law regulations; existing control bodies (State Audit Office, Competition Council) conquer local government media and informative periodicals of local governments without any lawful substantiation even now.

Due to several reasons we have established that a local government should interfere and reduce the effects of governance failures and market failures to the possible extent. It is characteristic that the need for interference is determined by one rather than many mutually supplementing factors.

To achieve the aim of promoting a local government’s products on the market by fully informing inhabitants, we can use several out of eight possible solutions. Regulation (private media) is justifiably prohibited and administration on the part of a local government is just as prohibited. A free service is possible (it has been selected by several local governments that distribute free informative newsletters). Several local governments provide a service for a low price, subsidising its newsletter or supplementing revenue with a payment for advertisement.

SEVERAL BASIC NOTIONS OF THE PUBLIC SECTOR ECONOMICS

A local government's newspaper can be created as a business company that is actually a hybrid social entrepreneurship. The local government's newspaper is not aimed at gaining profit for the local government, yet it can act as a hybrid social undertaking (carry out a public function – promotion of a local government's product in the market; inform inhabitants of the local government about the possibilities of using services and getting involved in community activities; carry out a private function – earn from advertisement placement). Hybrid social companies usually operate in sectors wherein private business activity is also taking place; however, competition protection must be commensurate to the public benefit these social companies ensure.

A newspaper owned by a local government (or participation in a newspaper as a shareholder) can be maintained by separating it from the local government, deeming this newspaper as a local government's source of profit. In this case, the local government as a participant in the shareholders' meeting affects the appointment of management.

The local government can support private media in a legal manner (for example, by helping journalists obtain education on public management and politics) to improve the quality of information. It is deemed a facilitation activity.

The local government can purchase services in private media (ordering advertising articles that are as if not journalism). Likewise, it is possible to purchase the publication of its own regulatory enactments and policy documents.

The local government can implement the function of a medium within the framework of public and private partnership, entering into relevant agreements with a private partner – the owner of a medium.

It can be seen that certain movement towards the goal can be achieved by six

out of eight activities; moreover, each of the solutions has different return and different expenses. According to the Law On Prevention of Squandering of the Financial Resources and Property of the State and Local Governments, an effective solution with the greatest return on invested cash should be selected.

The particular local government (taking into account economic views of local government deputies, social values and local political situation) will immediately refuse from several solutions, yet it can fully implement the proportionality text in relation to other solutions.

For example, the local government might choose the following three alternatives:

1. business company – a social hybrid enterprise wherein advertising expenses cross-subsidise social activities;
2. external procurement – purchase of advertisements and publications of information about budget funds;
3. a concession agreement with private media, where to the local government's informational task is transferred.

At the first stage, goals must be justified – under competition conditions with other local governments and sectors, to navigate information about local government's products on the market (fight for inhabitants, labour force, tourists, external and internal investors). If the State legislation is developed in the direction of totalitarianism, the competition of local governments can be recognised as illegitimate, yet this goal can be protected under the conditions of democracy.

At the second stage, the second and third alternative can be discarded. If private regional media were able to ensure the majority of readers, the external

procurement would be a tool for attaining the goal. Unfortunately, neither newspapers of a national scale, nor regional newspapers are able to increase the circle of subscribers up to the necessary scale. If any media enter into a concession agreement on the publication of the local government's opinion, never-ending litigation would start and the function would eventually not be implemented.

There is only one option left, which is to be tested for proportionality within a narrower meaning – whether the solution is not overly bureaucratic, overly expensive and does not have excessive influence on the private field, depriving people of initiative and responsibility. In other words, whether the solution complies with the ideal of minimum governance.

This last decision is made by local government politicians and it is ambiguous. Some people may consider that local private media should be spared to the extent possible and advertising possibilities should be minimised (otherwise the social function would have to be subsidised from the budget). Other people can consider that the amount of information prepared by them should be minimised, leaving it within the competence of national public media and private media. Some other people can accede to active and high-quality journalism, ensuring the maximum political and educating influence.

5.8. Choice – Whether to Create a Local Government Company

There is no complicated problem that could not be described with simple short sentences. We will try to express the essence in several sentences:

1. A local government interferes in the activities of the private sector if it can prove market failure or governance

failure and that they hinder improving the life of local government inhabitants.

2. Creation of an undertaking (business company) is only one of the possible responses to governance or market deficiency.
3. Other responses are not initially as compared to the creation of an undertaking; however, during the assessment process, a method most favourable and comprehensible to the local inhabitant should be selected for eliminating deficiency.
4. In several local governments, according to knowledge and values of inhabitant representatives, and influence of internal and external factors, solutions can be different.

6.

NETWORK COORDINATOR



A network coordinator plays a substantial role. An excellent coordinator is able to inspire local governments to be active, cooperate with their creative contribution, assist others, and use the findings of the network in his/her own local government in an effective manner.

Excellence can be neither described nor defined. One excellent coordinator can act in a manner diametrically opposite to another excellent coordinator. It is similar to teachers: good teachers tend to act similarly; usually there are justified points of view about how to teach well. Excellent teachers tend to be different; their only common trait is the way these excellent teachers encourage students to study and gain additional information about the subject, inspire them for work in professions

wherein the knowledge obtained is useful. The excellent ones are remembered.

Excellence is a rarity. Sometimes, we cannot find them and our results depend more on ourselves. However, let us finish with excellence and continue with traits useful for a good coordinator.

Firstly, he/she should have basic knowledge about the State and local government, understand the rights and duties of local governments. A coordinator must respect an opinion that the autonomy of local governments is lawful and is to be used for the benefit of the local government's inhabitants. A coordinator must be able to organise the mutual consulting process wherein the representatives of different points of view participate.

The understanding of a local government can be based on both practical experience in the decision-making authority of a local government or the executive authority of a local government and experience in State work (provided that the aforementioned conditions about the basic knowledge are fulfilled). The understanding of a local government can also be based on knowledge obtained within the framework of the master's or doctor's study programme at a higher educational institution on relevant subjects (public management, economy of the public sector).

Secondly, English language proficiency is preferable, since the majority of the world literature on local government matters can be found just in this language. A coordinator must be able to examine available sources on topical elements of the theme to be discussed within the framework of a cooperation network.

Thirdly, basic knowledge about optimisation, an efficiency function and system of constraints in the optimisation task, the use of result indicators in formulating the efficiency function and constraints, is preferable. A coordinator does not have to have knowledge about the mathematical solution methods (non-linear and linear, dynamic programming) of the optimisation task, yet he/she should understand the formulation principles of the optimisation task and should be able to explain to participants the geometric interpretation of the optimisation task.

Fourthly, a coordinator must follow the political, social and economic agenda of the development of local governments. Solution is the participation of coordinator in the meetings of LALRG political committees according to the theme selected in the network. It means that a coordinator must know the progress of discussion about the application of current legislation and proposals of new legislations in the given field.

Fifthly, a coordinator requires certain analytical abilities and at least average organisation abilities as well as must understand the basics of project management. It means knowing how to plan the progress of network activities and being able to analyse information found for each next thematic meeting.

Sixthly, a network coordinator must be able to communicate with network participants, be able to hear other opinions and encourage the persons expressing their opinions to protect them. The operation of a cooperation network requires statistical and technical support. It must be ensured taking into account project management principles.

Network coordinators are responsible for thematic studying, comparing the process of creation and organisation of networks, for the preparation of informative and training materials for network meetings, for the conformity of data accumulated and analysed in the benchmarking database to project goals and decisions of local government politicians involved in the operation of networks.

Network coordinators prepare informative materials for all meetings of thematic directions, act as discussion moderators during meetings, prepare draft decisions for network meetings, as well as formulate themes to be discussed and tasks arising therefrom.

At each network meeting, tasks for the next network meeting are clarified. After the meeting, a network coordinator, consulting the benchmarking database Analyst, determines the amount of information to be collected and analysed:

1. primary information available in the database is used for calculating necessary indices;
2. possibilities of supplementing current information with new information

that can be obtained from local governments, State institutions, statistics or via individually organised surveys are analysed.

Based on this analysis, a network coordinator carries out consultations with relevant ministries (other State institutions) about the possibilities of receiving information at their disposal. If necessary, LALRG political management is involved in negotiations. Basically, data exchange is organised on the basis of mutual benefit – ministries and other relevant institutions get access to information useful for attaining the goals of the central government.

Information that cannot be obtained from State institutions is collected from local governments involved in all cooperation networks. Preparation of relevant information is the responsibility of chairpersons of councils of a pilot local government, while data collection and sending to the benchmarking database is ensured by a local expert working within the framework of the project. Other local governments are invited to collect data to be summarised and send them to the benchmarking database voluntarily.

By consulting the administrator of the benchmarking database, appropriate information request forms are developed and collection of information in the benchmarking database is organised. Over time regularity can be achieved in this field; for example, collecting basic information according to the plan and once a year. However, it is expected in every case that the initiative could come from a network coordinator.

In between network meetings, the duties of a network coordinator include collection of good and bad experience about the experience of local governments of Latvia and other countries in resolving topical issues. Network participants are assigned to summarise structured experience

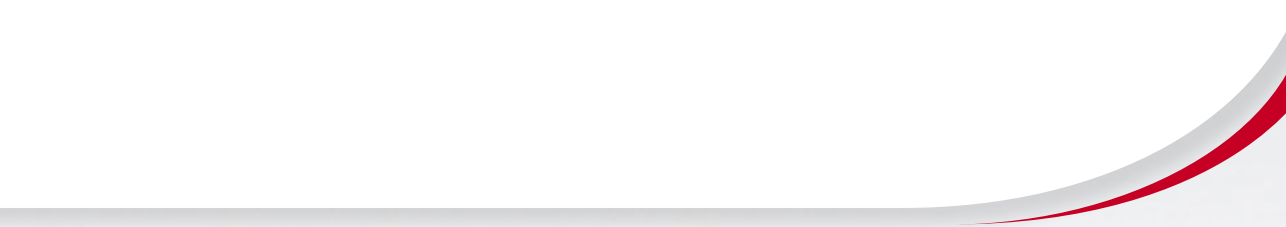
descriptions carried out by local experts working within the framework of the project. Other local governments are invited to collect experience descriptions to be summarised and sent to the benchmarking database voluntarily.

The duties of a network coordinator also include the collection of relevant experience descriptions from local governments and local government associations outside Latvia as well as from Internet resources. Non-structured information is structured and placed in the benchmarking database.

Non-structured information is summarised in Latvian, English and Russian. Basically, collection of this information is the duty of a network coordinator.

Before a regular network meeting a network coordinator prepares the following:

1. a summary of materials and a presentation on data appropriate for the theme; they are to be published in the open part of the meeting;
2. a description of experience descriptions and a presentation on the options of resolving relevant issues which are to be published in the open part of the meeting;
3. a summary of materials which are internally used for the network and which are not to be published;
4. materials to be published are published on the website of cooperation networks along with the agenda before the meeting.



7.

NETWORK PROGRESS CYCLE



Normally, network development could consist of several stages:

1. selection of a sector or target;
2. selection of a theme, clarifying the circle of participants;
3. developing the initial action plan;
4. series of network meetings;
5. finishing the activity of a network.

7.1. Selection of a Sector or Target

Activity of a network occurs voluntarily; moreover, each local government has the right to use the network for its own benefit. A network coordinator and other LALRG experts, particularly advisers to political committees, use the in-depth discussion results which are obtained from comparing

different opinions and different experiences. During the activity of a network, the benchmarking database is supplemented, thus increasing the amount of information available in State databases and frequently providing a new vision for the assessment of social and economic processes.

Therefore, the result of a network operation is summed from the following:

- benefits of each local government/ network participant;
- total benefit of a local government from experience obtained during network discussions and potentially used in favour of common interests of all local governments;
- new ideas that can be used in State or local government policies.

A common goal is formulated for the network, yet this goal (which is an “average” goal of several local governments) is more of an approximate nature. The goal can be an ideal that the process participants deem as a benefit, hence it cannot be fully attained, yet it is oriented towards changes in a certain, outlined direction.

The choice of a theme is more important for obtaining practical results than the choice of the goal. During the project, an approach typical of strategic management is offered by selecting local government management as a management method. However, the application of this method is currently known only to the politicians of several local governments; the majority operates in a traditional manner (within the framework of the single planning system of the State), and management procedures are currently not oriented towards innovations.

A local government that makes decisions according to the command model formulates the goal according to the goal of some authority of a larger scale – regional, national or EU. In this case, independence is manifested by formulating the theme that is decided to be discussed. For example, if a local government has decided to implement the national goal – by increasing the number of recipients of vocational education and reducing the number of students in secondary education, it is important to determine the sub-sector wherein these activities are planned to be implemented.

A local government acts within the framework of the incremental method and formulates the goal wider than changes to be introduced. It has been decided to implement incremental (gradual) changes with minor improvements, yet keep in mind the main goal. Within the framework of the incremental method it is also possible to try improving education, yet it has been established that the costs of support personnel in secondary school exceeds the

remuneration of teachers and it is decided that something should be improved by making the work of support personnel more effective.

A local government that develops policy by means of bargaining methods should create a set of goals that promote the mission of a local government to a greater or smaller extent, yet the selection of goals will occur as compromises between the interests of different groups. In terms of bargaining with central authorities, the opinions of the leading political spectres and the opposition must be taken into account, and allies must be sought in a way to approximate the mission of a local government.

Supporters of the rational method will isolate the most realistic of all its goals; these goals can be obtained with the support from EU funds or development programmes of the central management.

The choice of the goal will determine both the method of resolving issues typical of a local government and ideological settings, belief in some ethical model. Therefore, a peculiar situation occurs when network participants might have no common goal. The theme (area of activity wherein local governments wish to improve their work) can be common.

We will examine the area of the activity “promotion of entrepreneurship” as an example. Local governments with different economic and social points of view as well as local governments that have decided to operate within the framework of the command management and that have decided to set their goals themselves can operate in this fixed area. It can happen so that the goals of local governments will be different depending on this situation:

- to attract finances for its own territory if the plans of the central government are any activities for supporting entrepreneurship (local government – supporter of the command management);

- to increase the employment rate, to support a company that provides more workplaces (a local government with a socialistic ideology and keynesian views in economy);
- to improve infrastructure and to simplify conditions of spatial planning for companies to be able to develop under competition conditions where the strongest one survives (a local government with a liberal ideology and neo-liberal views in economy);
- to increase productivity, to support companies with a small number of workplaces, wherein high salaries are paid (a local government with a liberal ideology and neo-liberal views in economy);
- to promote knowledge economy (a local government with a liberal ideology and keynesian views in economy);
- to promote social entrepreneurship (a local government with a socialistic ideology and neo-liberal views in economy).

Different other combinations of goals are possible as well. However, in determining the field of facilitation of entrepreneurship, local governments can jointly discuss delaying and promoting factors, focus groups that gain benefit from an activity, and expected consequences in associated sectors. It is possible to discuss how controlling and repressive authorities of the State will react to be able to implement entrepreneurship facilitation within the framework of law. It is possible to discuss how successful it was to lobby one's own interests and attract State and EU support for attaining one's own goals. It is possible to discuss support organisation procedures and minimise the costs of activities included in the procedure. It is possible to discuss the effects of activities on the mission of a local government that are

defined in long-term planning documents.

The fact that local governments with different goals will participate in discussion will allow to compare the advantages and disadvantages of different approaches. At the same time, acting in such an environment of different goals sets high requirements for the qualification and skills of a network coordinator.

7.2. Selection of a Theme, Clarifying the Circle of Participants

A cooperation network is not a place where a local government only "receives". A local government also ensures its contribution, therefore a participation contract (agreement) stipulates the following:

- a membership fee can be collected (if a local government sees direct benefit, it is possible, yet it is easier to organise a network that has a small, yet fixed external source of financing);
- a duty to participate in meetings (participants do not fulfil direct duties, yet receive information and share information);
- information submitted to the benchmarking database must be collected (in addition to the information requested by different State authorities, data are processed, surveys are carried out, calculations are performed on matters discussed during network meetings).

The contribution of a local government in network activities can be transformed to expenses in monetary terms, yet it is basically assessed of high quality. Potentially, extending the scope of employees will promote the performance of a local government.

The benefit of a local government at the initial stage is more likely to be assessed as high quality. Initial hopes – a cooperation network as a tool for improving policy can both justify itself and not. Moreover, a negative result is possible at least due to the following four reasons:

1. employees (for example, local government politicians avoid participation, visit network meetings on a non-regular basis, do not fulfil “homework”, excuse themselves with important work in their local government) do not work full time and do not undertake full responsibility;
2. no appropriate information exchange takes place (for example, no internal policy improvement process is organised, knowledge obtained within the framework increases only the human capital of individual persons without benefiting the local government);
3. a network coordinator works poorly (no new knowledge elements are offered, purposeful activity of the network is replaced with social negotiations);
4. other network participants are passive, actual policy-makers that are not entitled to speak on behalf of a local government do not participate in negotiations and do not provide other network participants with actual information about the local government’s intentions.

This way or another, the final decision on participation in a network is adopted by the political management of the local government. Both the scope of participation and the range of involved persons are determined upon mutual agreement. One side is network organisers (for example, LALRG or another organisation that uses the

developed benchlearning model), the other side – a local government that undertakes obligations stipulated in the agreement document.

The initial circle of participants is established after selecting the theme and signing agreement documents with each involved local government. The agreement document stipulates the duties and rights of both parties – organiser of a cooperation network (it can be a legal entity – LALRG) and participants of a cooperation network (a legal entity – local government).

7.3. Developing the Initial Action Plan

The benchlearning method is used in the interests of network participants; it is not meant for reporting to a higher-ranking institution. Hence, the process can be managed as a company – no one prohibits being flexible and responding to changes in an external or internal environment by quickly introducing necessary adjustments.

Activity of a network is planned for a relatively short period – usually 1–2 years. It is less than one political responsibility period of a local government, during which it is usually impossible to implement everything planned, it is only possible to commence the introduction of reforms or changes. At the same time, knowledge obtained within the framework of a network can force reassessing previous plans; therefore, the need for adjustment can already occur before implementing the intended plan. This is why the term “initial action plan” is used.

The plan is proposed by a coordinator, yet the plan is accepted by network participants themselves. The typical division of activities can be as shown in the table (for specific purposes, it can be different as well).

7.

NETWORK PROGRESS CYCLE

Table 1. Example of an initial action plan for one year

Week	Content of a network meeting	Duties of participants	Anticipated result
1.	Opening meeting – discussion on the choice of a network theme and on conditions for participation of a local government in a network	To assess one or several proposals on the network theme, the type of network financing, and duties of network participants	Potential network participants make decisions on participation in a network and enter in an agreement with network organisers
5.	Formulation of problems – discussion on problems corresponding to the network theme, an opinion on the significance of relevant problems in local governments – network participants	To create an internal procedure in a local government for influencing and applying results. To assess the significance of problems offered by the Coordinator	A list of several problems, for which network participants will search solutions, will be compiled
10.	Solution methods of the 1st problem	To prepare a presentation on how a problem is resolved in their local government. To prepare necessary information for the benchmarking database	Solution methods of the 1st problem are compared – information is summarised by the Coordinator and experience of the network participants is compared
20.	Solution methods of the 2nd problem	To prepare a presentation on how a problem is resolved in their local government. To prepare necessary information for the benchmarking database	Solution methods of the 2nd problem are compared – information is summarised by the Coordinator and experience of network participants is compared
30.	Solution methods of the 3rd problem	To prepare a presentation on how a problem is resolved in their local government. To prepare necessary information for the benchmarking database	Solution methods of the 3rd problem are compared – information is summarised by the Coordinator and experience of network participants is compared
40.	Discussion on proposals for the improvement of the legislation environment	To assess the material prepared by the Coordinator on how the offered improvements to the legislation environment would affect the local government's possibilities	Proposals are prepared to be used in the work of the LALRG political committee
50.	Presentations on proposals for improving the activity of local governments	To prepare a presentation on actions planned by a local government	Plans of work improvements have been developed in local governments
55.	Final meeting	To discuss the assessment of participation in a network in one's own local government	Network results are assessed and proposals are obtained for further work

Ideally, participation in a network occurs with the participation of the chairman of the local government council; moreover, there is actual interest in results, since the political management of the council has an intention of improving something in relation to the theme selected for the network. Then there are no problems with organising a full-fledged internal process including involvement of other employees.

It is to be taken into account that the ideal situation cannot come true. The positive effect will be smaller. Pilot projects implemented until now and the experience of local governments from other countries still suggest that the capacity of local governments – network participants increases even in the case of incomplete participation.

7.4. Network Meetings

A network meeting can occur at both LALRG and any local government – network participant – as well as in greater premises selected especially for this case.

Each choice has its own advantages.

By using LALRG, it is possible to organise live broadcasts from the open part of the network better. It means communication possibilities with those who join with questions, and the possibility of involving employees of a local government who did not come to Riga. If work at a local government is correctly organised, it is crucial to involve a greater number of interested persons.

This choice is better for students and researchers as well as ministry workers who might be interested in a summary on the selected theme. If ministry representatives, scientists and social partners are invited, a broadcast from LALRG headquarters has a wider audience.

If a meeting takes place elsewhere, the open part can be recorded and made publicly available later. This procedure also allows for implementing the communication function of the network. Wider communication on the local government's issues increases the possibilities of receiving support from the public or the central government, which is sometimes no less significant than searching for a solution during a closed discussion.

Previous experience, including the experience of users of the benchlearning method in Norway and Poland, suggests that the representatives of local governments favour trips, as they encourage discussions, particularly under informal conditions.

If a meeting occurs within a framework of a trip to a local government, there is a possibility of seeing and assessing the entrepreneur's achievements of a local government – other participants. It is mostly also used by the local political management for popularising its achievements.

Tasks for the next network meeting are clarified at each network meeting. After the meeting, a network coordinator, who is consulting the LALRG leading expert and the benchmarking database Analyst, determines the amount of information to be collected and analysed:

1. primary information available in the database is used for calculating necessary indices;
2. possibilities of supplementing current information with new information that can be obtained from local governments, State institutions, statistics or via individually organised surveys are analysed.

Based on this analysis, a network coordinator carries out consultations with relevant ministries (other State institutions) about the possibilities of receiving information at their disposal. If necessary, LALRG political management is involved in negotiations. Basically, data exchange is organised on the basis of mutual benefit – ministries and other relevant institutions get access to information that is useful for attaining the goals of the central government.

Information that cannot be obtained from State institutions is collected from local governments involved in all cooperation networks. Preparation of relevant information is the responsibility of chairpersons of councils of a pilot local government, while collection and sending of data to the benchmarking database is ensured by a local expert who works within the framework of the project. Other local governments are invited to collect data to be summarised and send them to the benchmarking database voluntarily.

By consulting the administrator of the benchmarking database, appropriate information request forms are developed and collection of information in the benchmarking database is organised.

In between network meetings, the duties of a network coordinator include collection of good and bad experience about the experience of local governments of Latvia and other countries in resolving topical issues. Pilot local governments are assigned to summarise structured experience descriptions carried out by local experts working within the framework of the project. Other local governments are invited to collect experience descriptions to be summarised and sent to the benchmarking database voluntarily.

A publication of the open part of a network meeting is intended for also applying the innovative ideas that occurred during the discussion in other local governments

which did not participate in the discussion of the theme directly. The publication of the open part provides journalists with an opportunity to provide objective information to inhabitants about the problems of local governments and the possibilities of solving these problems.

The open part of the meeting contains the presentation by the network coordinator, performances by involved experts, and discussions on questions set during the open part.

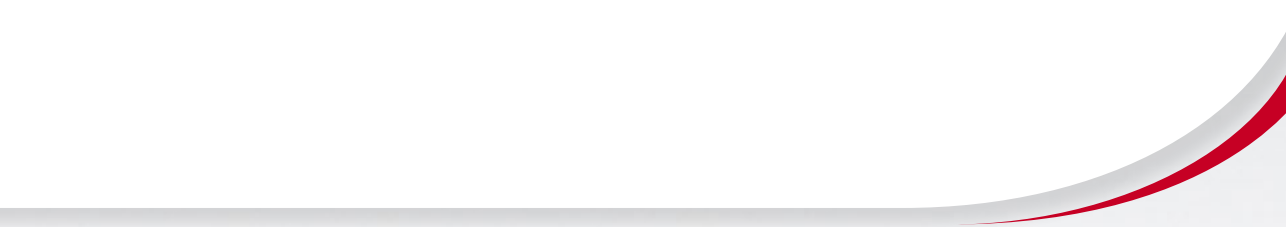
The closed part of the meeting is devoted to discussing sensitive information. This part includes a presentation by the network coordinator, presentations by network participants in relation to the experience of their local governments and future ideas as well as a discussion on the directions of applying the examined information.

During the final part of the meeting, matters to be discussed at the next meetings, conclusions made during the discussion, tasks to local governments – network participants, until the next meeting or later deadlines are clarified to prepare upcoming meetings according to the schedule of the matters to be examined.

7.5. Finishing the Activity of a Network

Networks can differ from each other. It is important that network owners are network participants – local governments that use the service of their association. Local governments themselves can decide on how to close the network. If external financing can be attracted for the activity of a network, some previously determined formal requirements can appear.

If the network plans to work on strategic matters, each participant shall submit in writing and present its variant of the local government's strategy which has been



developed by internal work groups of the local government acting concurrently in the network.

In the simplest cases when the majority of local governments choose the incremental approach and search for the possibilities of minor improvements, a plan of improvements is enough.

A good conclusion is when each local government submits in writing and presents its operation improvement plan which has been developed by internal work groups under the influence of operations of relevant networks.

Operation improvement plans include proposals arising from themes discussed during network meetings. If a local government chooses to refrain from introducing changes to the discussed field, the main reasons why the current system has been recognised as successful are formulated.

Network coordinators, in cooperation with involved local governments, ensure the measurement of plan results in the upcoming years after the discussion of the network theme is finished. This is a crucial element to ensure succession and constant improvement of the cooperation network methodology.

Results of network activity are regularly reported at the meetings of LALRG Board and Council, also encouraging local governments to use both positive and negative experience.

8. PREPARATION FOR A NETWORK MEETING



For a cooperation network to be successful, one should prepare for it. The scope of preparation arises from planned matters and can vary at each next meeting.

Advice expressed in the subsections below are considered to be guidelines. Different elements from those described below are to be used for each particular meeting; elements that are not described here can be included upon necessity.

8.1. Theory Search

Both politicians and employees participate in a network meeting and represent the same local government. In relation to theories, different stereotypes, in spreading which

both previous training and mass media influence play a great role, are encountered more frequently than comprehensive knowledge.

It is preferable for a network coordinator to show ways how the representatives of different theories resolve different issues included in the agenda. Usually it is the case when different theories supplement each other and reveal different implementation aspects rather than fully exclude each other.

The correct decisions are delayed by a rather dogmatic approach, adhering only to one doctrine. For example, people know that “competition is good”, while “protectionism is bad”, “big economy is effective”, while “small economy is ineffective”, “more honest people are better managers”, while

“dishonest people are bad managers”, and other similar ideas. Actually, strict adhering to these stereotypes delays the creation and development of innovative ideas.

A network coordinator should keep in mind that in practice contradictory theories supplement rather than exclude each other; that eclectics found in a local government’s programmes are most likely a casual relationship rather than a rarity. In such an environment, a path for improvement should be sought.

It is preferable to send out theory fragments suitable for discussion to network participants in advance. With the benchmarking database supplemented, useful sources will be found as publications and non-structured records increasingly often.

8.2. Experience Descriptions

Experience descriptions are obtained to be able to learn from good examples and others’ mistakes. They are mostly created by the participants of cooperation networks and these descriptions are used during negotiations of network participants, likewise, they can be used in the future – in networks one, two, ..., twenty years later. In the field of local governments, the structures and methods of work change slowly, local governments might also make use of experience of other local governments after a longer period. For comparison: State administration often uses methods of work invented several hundreds of years before.

When selecting the structure, the experience of Norwegian and Polish local governments, as well as the approbation of creation of these descriptions in pilot projects in Latvia was used. To find an experience description, a system of classifiers is used (see the Handbook on the benchmarking database). By selecting the logical key “and”, all structured experience descriptions that

contain a small number of typical traits can be sorted out.

By marking “structured experience description” in the classifier “Type of data” and “roads and streets” in the classifier “Type of managed function”, all records on the topic of roads and streets in local governments can be found. If there are too many of these records, the search is further refined.

The structure consists of several elements described below.

8.2.1. Description of a Problem to be Solved

In this structured part of the experience description, the authors describe an issue they resolve.

In Latvia employees of the State and local governments got used to annotations used in State administration wherein substantiation is mentioned (EU norm, Cabinet Protocol Decision, etc.). This substantiation is typical of the command method of policy-making which will also be encountered in the work of each local government to a greater or lesser extent. There might be a reference to the local government’s planning document, internal local government’s marketing strategy, council’s decision.

If a local government uses the incremental method, a different description form can be used: a shortcoming (shortcomings) is observed in the work of a local government’s structural unit or institution, for example, customer dissatisfaction with any element of rendering services. In annotations prepared by the government, this substantiation of a problem corresponds to an answer to the question “What will happen if the problem is not solved?”. According to this scheme, the solution offered below is potential elimination of negative consequences.

If a local government uses the bargaining

method in describing a problem, attention is paid to external conditions. For example, external controlling institutions can demand for a detailed internal regulatory framework, which causes useless increase in the cost of project implementation, requires structural changes (for example, dividing a school into several administrative units), require introduction of economically doubtful environmental protection activities, etc. In that case the problem has an external cause and work improvement requires searching for an original method how to reduce the negative consequences of centrally created requirements. In this case, the solution is usually related to bargaining – searching for a compromise.

If a local government uses the rational method then the problem arises from an individually set goal. For example, deputies of the leading coalition wish to fulfil their election promise that requires work reorganisation, introduction of new innovative methods, etc. In this case, it is necessary to describe this goal, and the main planned benefits for inhabitants can be mentioned. The control of planned benefits can help in developing an appropriate measurement system.

The rational method can also be used for attaining the goal set by the government, yet searching for an optimal method that suits local conditions better. For example, an idea of the total “deinstitutionalisation” of social work is harmful and describes the wish of the central government to use the situation of external financing to attract EU funds while hoping that no responsibility will have to be undertaken for negative consequences in the future. At the same time useful local application can be found for these ideas if a local government acts smart and compensates for negative consequences correctly.

If a local government uses the ideological method, substantiation arises from belief. For example, if deputies believe

in the need to fight for climate changes, their substantiation should mention this argument and use external financing for implementing any useful change in their local government.

Different types of substantiation are mentioned here for encouraging ideas of how to make a description. Employees that make a description “do not have to classify” their politicians. In practice, policy is most often developed eclectically under the influence of several ideas. This way or another, employees of a local government know which discussions have taken place at permanent committees and the council; it is preferable to reflect their content in this section in a compact manner.

This section is highly important for the user; he can act according to this section or read further. From the practical point of view, a local government is interested in exchanging experience and transferring its experience to other local governments. Therefore, the task of this section is to interest a potential partner of the local government.

8.2.2. Description of the Selected Solution

The minimal description should include a novelty that distinguishes the offered solution from others. The best is to initially place this formulation in the first sentence; however, depending on the writer’s manner, it can be placed elsewhere. The ability to formulate an innovation in a nutshell indicates maturity, the fact that the authors themselves have thought through their method.

A description can include the following:

- an idea of how to resolve;
- participating officials (institutions);
- procedures (binding regulations, internal standards, order established at an institution, etc.);

- supervision and measurement system (description of indicators is presented separately below);
- a system for assessment of results and introduction of improvements.

In making a description, one should not formally adhere to everything aforementioned; the content is selected depending on the need. There should be a visible idea that might be introduced or used on other local governments.

8.2.3. Risk Assessment of the Selected Solution

In preparing a decision on the selected solution, risks have been assessed. Risks can be of the most diverse nature.

Political risks most often arise from the fight for power in the local government itself. Then the opposition uses the unusualness of a novelty to doubt the possibilities of implementing it. There are several methods of fighting the opposition; the scope of this Handbook is not large enough to analyse all of these different methods. However, the simplest method is to implement a positive campaign, the fullest positive explanation of the solution. It is possible to involve the groups of interests that directly benefit from the planned changes in the local government's work.

External environmental risks are related to objective changes in economy, crises, unforeseen changes in the legislation environment, negative consequences of procurement procedures, etc. If local government politicians do not belong to the ruling coalition in the Saeima, increased interest can be observed on the part of controlling and supervisory authorities; it should help discrediting the management of the local government and encourage the internal opposition for more active work.

External risks also include possible pressure from informal economy or privileged economy (diverse State aid stipulated in laws) recipients.

Technological risks are related to the possibility that the planned conditions that are taken into account in selecting the solution method do not come true. It can be so that, in the process of developing a solution, local government employees have not taken into account the influence of some most crucial factors.

It is not always possible to observe Pareto's 20/80 Rule (20% of factors produce 80% of the result and vice versa). A particularly great risk exists if one acts according to the command method and introduces the State policy. It is to be taken into account that the majority of State policies are of a demonstrative rather than material nature. They are meant for deceiving the inhabitant expressing that the government carries out intensive work in directions where no changes are actually planned. In these cases the work is carried out with those 80% of factors that have little impact on the result, yet allow to create an illusion of activity. Often enough, this choice is determined by the lack of resources rather than by unwillingness to do anything.

Activity with 80% of minor factors usually satisfies bureaucracy – it can increase staff by operating in fields where no one expects any results. This activity is useful for short-term coalitions that do not plan to stay at power for too long and that operate in a short-term perspective.

Transferring activities recommended by the government to its own territory always results in a risk that no anticipated results will be reached. If a local government actually wishes to attain the goals declared by the government, it should responsibly assess the recommended goals and recommended solution methods.

8.2.4. Description of the History of Using the Solution

This section can include both the history of ancestors (describing sources from which ideas were adopted) and the history of internal discussions (which arguments were given “for” and “against”).

In this section, it would be interesting to read about which improvements were introduced during planning, introduction and assessment, and whether they resulted in negative or positive effects.

The history also describes changes to the internal and external environment of a local government, and how the attitude of the population and mass media changed.

8.2.5. Description of Result Measurement and Achieved Results

A more detailed description on how achievements and failures are to be measured will be provided further in this chapter.

Experience about which measurements are performed (or adopted from centralised information systems), what these indicators describe, how often these measurements are performed, is valuable for all persons who resolve these issues independently.

The ideal description explains the political, economic and (or) social nature of measurements, and the source of obtaining them.

If a local government uses indices, it explains why its achievements are compared to the achievements of the base process, what is expected from these indices.

If a local government individually creates complex indices, it is explained what is planned to be described by this index and how experts were selected or how the mathematical model was selected for determining weight ratios.

If possible, measurement results are enclosed and results are interpreted.

8.2.6. Recommendations for Persons Adopting Experience

There is rarely a process which occurs absolutely smoothly and during which there are no unexpected turns and a need for making previously unforeseen decisions. It can happen so that nothing of that kind was foreseen during the development of an implementation programme (project), the event was not included in anticipated risks.

The opposite can happen as well – public support is obtained to such an extent that it was possible to implement the plan a lot easier than it was initially thought.

It is preferable to introduce thoughts about these matters in the last part of the structured experience description.

8.3. Primary Data Sources

Local government decisions are based on central government recommendations, knowledge and information of politicians and employees. Central recommendations are medium good, i.e. they are not optimal in any particular case, yet they serve as guidelines if particular territories of local governments lack incentive or skills. Often enough, there is a different reason – people “from the centre” do not trust people in local governments who prohibit acting independently that preserves the feeling of power.

Primary data from information can become the grounds for independent decisions if it is possible to assess this information, including comparing it with reliable, comparable data.

To be able to discuss things that happen at a local government, data on a local government’s finances, property, sectors and territory are necessary. To be able to discuss the significance of these data, it is

necessary to compare these data to data of other local governments and to data on the situation in countries to which inhabitants of the local government go to work.

Increasingly more data will be gradually available in the benchmarking database www.blis.lps.lv. These data will be collected from both local governments and State information systems. Cooperation networks will be the main source of ideas about which data are necessary and which of the available data can be used.

Certain crucial data sets can be currently obtained as open (publicly available) data, yet there is no guarantee that it will be possible to find these data in the future as well.

Data collection and compilation by territories was already delayed upon joining the EU in 2004, yet the first stage of the Administrative-Territorial Reform put the matter to rest in 2009. No matter how strange it might seem, after the reform no more data were collected and analysed on the structure of local government territories. Since EU management only requires data on 6 NUTS 3 (3rd-level Nomenclature of Units for Territorial Statistics) territories, the central government decided that data on local governments, cities of regions and parishes of regions as well as villages would no longer be necessary. It can be explained solely as a decision to promote the mobility of Latvian inhabitants in the EU, gradually subjecting to depopulation and freeing the territory from inhabitants step by step.

For local governments to continue existing and developing, the restoration of data on territories is a high-priority task of a national scale.

Certain data on local governments can be found here:

1. website of the State Treasury www.kase.gov.lv

2. website of the State Revenue Service www.vid.gov.lv
3. website of the Ministry of Welfare www.lm.gov.lv
4. website of the Ministry of Education www.izm.gov.lv
5. website of the State Regional Development Agency www.vraa.gov.lv
6. website of the Land Service www.vzd.gov.lv

However, data that would describe a territory can be rarely found in these databases. More often, the collection of data on local governments or their internal territories requires a separate agreement with the holders of State databases. If one of the indicators is an ATVK (Classification of Administrative Territories and Territorial Units) code, we can find out the data on parishes of a region, cities of a region, and Riga districts and urban districts.

Local governments of Latvia operate in both the EU Common Market and the global market. In this regard, it is useful to use EU statistics (EUROSTAT) and OECD data also available in Latvian as base parameters. These data can be used in assessing both the development potential (local government's products that attribute increasingly greater significance to European and global markets) and immigration or emigration tendencies from the territory of the local government.

It is useful to compare oneself with local governments that have good results within the context of Latvia (first of all, with donors in the equalisation fund, with local governments for which the increase in the number of inhabitants is typical). One can complain that the State does not offer help; however, assistance during the period of concern cannot be expected at all. Therefore, one should think what can

8. PREPARATION FOR A NETWORK MEETING

help overcome local governments in a more favourable situation.

It is no less interesting to compare oneself to another country (first of all, local governments of the closest neighbours – Estonia, Lithuania, Poland, Sweden) by using the statistics and government portals of these countries. For example, project partners – the Norwegian Association of Local and Regional Authorities – use the State statistical database KOSTRA for the analyses of its cooperation networks. Thus, KOSTRA data that can be found on the website www.kostrano.no can be used if it is possible to obtain similar data on Latvia. Particular interest can be caused by data on countries to which the labour force of different professions emigrates or goes to work from Latvia.

Questions about how to search for data and use them for obtaining performance indicators are discussed in detail in the second handbook to be prepared within the framework of this project on the benchmarking database.

8.4. Indices

A simple measurement is the one that has a dimension and describes an indicator that is important for a local government. For example: the number of inhabitants in a regional city, the amount of personal income tax paid by inhabitants, average salary, number of children, etc. Simple measurements as such do not describe anything. If we say that Riga paid EUR 70 million into the local government finance equalisation fund while Jūrmala paid EUR 4 million, we do not know whether it is a lot or not. These indicators must be compared to something.

The ratio of two simple measurements describes the studied phenomenon better. For example, we can find that the PIT income per capita in one local government is twice as high as in another local government. It

describes that a local government is able to attract better taxpayers to its territory. However, it does not mean that richer people are living there, since the system of many tax reliefs significantly distorts the overall picture.

We get the index by dividing two related values with equal dimensions. If we have successfully chosen the comparable value, indices allow to make certain qualitative conclusions.

We will use two measurements, i.e. salary and productivity, as an example. Examples of indices will be as follows:

$i_{a,LV}$ = average salary in a local government / average salary in Latvia;

$i_{a,EU}$ = average salary in a local government / average salary in the EU;

$i_{p,LV}$ = average productivity in a local government / average productivity in Latvia;

$i_{p,EU}$ = average productivity in a local government / average productivity in the EU.

We will not go into further detail here about how these data are obtained. We will note that the first index describes how the salary in the local government's territory can be compared to a salary elsewhere. We can compare this salary to local governments where greater taxes are paid, for example, Garkalne Municipality or Mārupe Municipality. We can compare this salary to the average salary in the EU. Indices that characterise the salary ratio are important factors if we are interested in potential immigration.

Theoretical economics teaches that the salary on average must be compared with productivity. Thus, the salary index in relation to the average EU indicator should be inclined towards the value of the productivity index in relation to the average EU indicator from below (Latvia started its life within the EU as a low-salary country).

However, the salary must increase since prices of resources in the Common Market are equalised.

The majority of our entrepreneurs have opposite thoughts. They would like to use a low salary as a comparative advantage factor. In turn, it would be favourable for employees if the salary was equalised sooner. Overly rapid equalisation of salaries promotes both inflation and unemployment. However, the economy of cheap labour force cannot be an option, since in this case there will be no indigenous inhabitants left in Latvia.

Indices can be expressed as fractions or percent. In any case, by expressing one and the same figure as one part, one-tenth or percentages, a mathematical equal mark can be used.

$$33/100 = 0.33 = 33\%$$

The use of simple indices is a good method for both informing and misinforming the public. To get an idea about the process, the choice of both the numerator and denominator is important. If you divide the average salary of a company by the allowed minimal wage, it will seem that everything is fine. If you divide the average salary of a company by the average salary in similar companies in other EU Member States, the conclusion might be opposite.

8.5. Complex Indices

The simplest index is the ratio of two values of the same measurement m_1 and m_2 :

$i_k = m_1 / m_2$, where k is the ordinal number of the index, if several indices are used in one assessment.

It is usually not enough with one index to measure social and economic policy. Researchers and managers endeavour to create indices that describe a phenomenon in a complex manner – simultaneously taking

into account several factors. This complex index is usually a linear combination of several simple indices.

A complex index can be expressed in the following form:

$$I = g_1 i_1 + g_2 i_2 + \dots + g_n i_n,$$

i.e. using the sum symbol

$$I = \sum g_k i_r$$

where $k = 1, 2, \dots, N$, i_r – simple indices, g_k – weight factors.

Simple indices can turn out to be insufficient for describing a problem. Thus, indices which are complex in their essence as they describe a more complex phenomenon can be used in the previous expression.

This situation is well described by the territory development index used in Latvia. This example describes both the advantages and disadvantages of the method.

For example, since 2000 4 simple indices were used as the territory development index for local city governments:

- Deviation from the average unemployment rate with the weight factor of 0.3;
- Deviation from the average amount of personal income tax per capita with the factor of 0.3;
- Deviation from the average level of demographic load with the weight factor of 0.2;
- Deviation from average changes to the number of indigenous inhabitants with the weight factor of 0.2.

Weight ratios were determined by the expert method – each index author assessed the significance of the relevant indicator and agreed upon coefficients. The standard

deviation from the average value in the relevant group of local governments was selected as the base by which to divide.

In turn, the selected indicators were determined according to the surplus method, indicators that can be obtained were used instead of indicators that were necessary. At the time, the situation with indicators only got worse. Hence, under conditions when the results of the reform were hidden after the administrative-territorial reform, obtaining credible indicators becomes increasingly more difficult.

In compiling a complex index, the most crucial question is – what do we want to describe by this index. The more precise our reply to this question is, the better the overall index will describe the result.

For example, local government politicians wish to receive support from inhabitants during elections without particularly distinguishing any focus groups. Then, in order to improve the opinion of residents, several goals can be discussed:

- Increase in wealth;
- Increase in population;
- Ecological improvement (environmental conditions);
- Improvement of cultural environment conditions;

- Improvement of provision and quality of housing;
- Satisfaction of the ideological demand;
- Satisfaction of inhabitants with administration.

In assessing the goals themselves, they should be first divided according to Pareto's 20/80 Rule. In analysing influence on elections, it can be assumed that increase in population and satisfaction of the ideological demand are not the results that will have a favourable impact on the choice of local government inhabitants. Then the number of goals will decrease.

In assessing available resources, it can be established that in upcoming years a local government will have no possibility of directly or indirectly affecting the housing stock; it will have to be left within the competence of households. Then the number of goals will decrease by one more.

To determine the weights of a complex index, a sociometric study can be carried out on the opinions of inhabitants, external experts can be invited, experts can be selected from among politicians and employees. Let us assume that weight ratios are selected for a local government by the first, second or third method, as shown in the table.

Table 2. Example of determining weight, creating a complex index

Weight	For an index
0.33	For the wealth increase index
0.21	For the ecological improvement (environmental conditions) index
0.19	For the index of improvement of cultural environment conditions
0.27	For the index of satisfaction of inhabitants with administration

Different methods of determining weight factors will definitely produce different results. Moreover, ratios should differ objectively, depending on the local government territory.

We will illustrate different possibilities of determining 4 simple indices:

1. Wealth is described by the salary of inhabitants and the market value of properties belonging thereto. A local government has access to data on the personal income tax (PIT) paid by inhabitants registered in its territory (regardless of the actual place of residence, they are potential voters) and on the cadastre value of properties located in the local government's territory. These data only describe wealth approximately, since the receivers of small salaries have a small taxable proportion. The same applies to the receivers of small old-age pensions.

The precise picture would be ensured by social tax contributions, yet this tax has sufficiently many reliefs that prohibit to precisely calculate the salary. It would be possible to significantly improve these indicators if a special agreement with SRS was achieved.

Increase in the cadastre value of immovable property describes increase in wealth. In theory, the cadastral value should be approaching 85% of market value. However, depending on the state of affairs, the State Land Service can calculate the cadastral value at a considerably lower value or at a higher value due to an artificially set price of recent transactions with land and housing.

In the first approximation, the index of the sum of PIT and immovable property tax can be used by comparing it to the same indicator of the preceding year.

In the first approximation, the PIT and immovable property tax sum index can be used compared to the same indicate a year before.

A person's PIT payments at each institution and each company are divided by 119 administrative territories. It would also be useful for each person to divide gross salary by these territories. Then it would be possible not only to determine the indicator describing wealth but also to find out the amount of tax discount, i.e. how much local government's revenues have decreased at the expense of financing the State function.

To understand why the PIT discount is the State function, the principle of subsidiarity can be used. According to this principle, the discount is determined in a centralised manner. It means that equalisation of persons' income is centralised in order to fulfil the task that is due to the State in terms of content and essence.

2. Ecological improvement (environmental conditions) should be described individually in each local government depending on its specific conditions. The measurement of the overall nature may be the satisfaction of inhabitants which would be described by filling out special questionnaires with a certain periodicity (for example, once a year).

Sometimes, to reduce dissatisfaction with the environment, a certain activity must be carried out. It is highly probable that inhabitants will be more interested in the cultural background or adjustment of the environment for tourism rather than those parameters that are more interesting to environmentalists who have taken care of preserving a very special species of worms after 100 years in the territory of the municipality.

In this case, a lot depends on the manner in which a local government is managed.

If the command method dominates, the local government management is interested in observing the central government's settings and law requirements. There are many different requirements set forth in laws; they can be observed in the amount of allocated budget funds rather than in full. "The centre"

will be satisfied if a local government takes resources for fulfilling functions under its own responsibility and invests them in the fulfilment of centrally determined ecological standards. The index that arises from the government's policy documents will be used.

If the incremental method dominates, a local government will select one non-arranged (the most crucial possible) field and will put it in order. The index will describe the degree of fulfilment of the relevant activity (project).

If the bargaining method dominates, a local government will endeavour to achieve that the investment policy of the State is applied for resolving environmental issues of the particular local government; moreover, it will act similarly to the command method and do everything that is currently topical for the central government. The difference is that the incentive will come from the local government.

If the rational method dominates, a local government will clarify focus groups, for which the environment improvement function is important, and will develop a long-term strategy for resolving this issue. The strategy could be organised as a process, during which the response of focus groups to events is measured and adjustments are introduced. The selected index could be complex and describe the approximation of rationally set sub-goals.

Here, we face a problem that is typical of the national analytical approach. A complex index is used instead of a simple index as a component of another complex index.

If the ideological method dominates, green technology criteria will be determinant. Similarly to the command method, a local government would not take into account the deterioration of the social and economic situation in the short-term, if a local government's activities show that increasingly more people support ideals. Activity can be accompanied by a propaganda campaign and the main measurement could be the ideology mastering index.

3. Improvement of the cultural environment has similar problems to environment improvement. The simplest method of creating an index is to carry out regular satisfaction surveys.

In this case, we will draw attention to economic points of view (belief in one or another doctrine).

If local government politicians consider that they should refrain from interfering into economy to the extent possible, improvement of the cultural environment will be related to services to its own inhabitants. Success can be described by the fulfilment of inhabitants' interests – in which leisure activities they will participate and in which additional activities pupils will be able to participate. The result of these activities is difficult to assess in a manner other than finding out opinions in the form of surveys.

If local government politicians consider that they should improve the business environment, it will be focused on special consumers – the labour force according to the economy restructuring plan. If it is planned to support post-industrial and science economy, it results in specific requirements for the cultural environment. It will be impossible to attract a skilful labour force (domestic or imported) if they do not have an environment for leisure and communication possibilities for visiting opera and theatre performances. Indices should measure the availability and quality of specific cultural services.

Certain local governments can choose creative industries as their area to be developed. Activities can be aimed at international markets and local government's aid to its companies of the creative industry, changes in the local cultural environment are an additional effect in this case.

4. Satisfaction with administration depends on what inhabitants are used to receive. At the same time, they get used to increasingly higher standards. An inhabitant sees him-/herself as a customer that expects courtesy and adequate service. Yet this is not the

only tendency. Legislators of all states and local governments work on complicating procedures, introducing increasingly higher control norms, and creating new prohibitions that delay the implementation of private interests.

Supporters of the command method will describe achievements with the more precise implementation of the government's policy. Those can be trendy elements of "good management" or methods of involving inhabitants in the decision-making process. In this case, instead of a simple index, the administration improvement achievements will again be described by a complex index, to which we will apply the weight ratio available in the table.

A similar situation occurs when other methods are used. Essentially, the creation of indices that characterise results could be a crucial part of discussions of cooperation networks.

8.6. Target Function

To understand the optimisation of the local government's work better, it is worth discussing this problem from the point of view of a mathematical formulation. Even though it is not expected during the upcoming years that any local government will actually start using mathematical methods for carrying out strategic management; the correct formulation of a task has a different meaning – different approximate judgement methods are worth comparing to the theoretically correct formulation.

"Understanding" any phenomenon or process is possible by finding an appropriate analogy that will occur similarly in terms of substantial elements. If a local government's work results depended only on one factor x , the task would be to optimise this factor – to find a value that corresponds to the maximum of the target function $F(x)$ (or the minimum depending on the nature of the task).

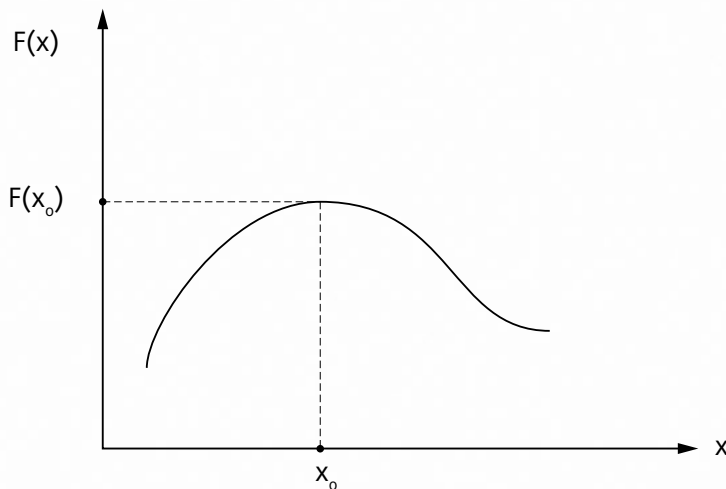


Figure 2. Laffer curve as an example of one-dimensional optimisation. Revenues presented into the local government budget $F(x)$ depending on the applied duty rate x

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For example, if the goal of imposing a local government duty is to achieve maximum revenues, then, according to the economic theory, revenues will be described by the Laffer curve that has the maximum value. At first, revenues increase in a linear manner – the higher the rate is, the greater the revenues are. Further, with the rate increasing, increase in revenues will decrease up to the efficiency function – revenue, depending on the imposed rate, reaches the maximum at $x = x_0$. The further growth of the rate no longer provides any additional income – with the rate, income decreases, since inhabitants and entrepreneurs avoid paying the duty by all the means possible.

The situation is a lot more complex in real life. For example, by increasing the personal income tax rate, revenues can decrease not only because of informal economy. The legal system of reliefs has a crucial meaning (social benefits to a part of society lead to fiscal losses for society in general). It is important that actual efficiency functions rarely depend only on one dimension.

The simplest case, in which it is still possible to see the diversity encountered in nature or technology, or politics, is an analogy with a two-argument non-linear function, for which we search for the maximum or minimum. This function is graphically presented as a surface above the plane, in which the coordinates of two variables are placed.

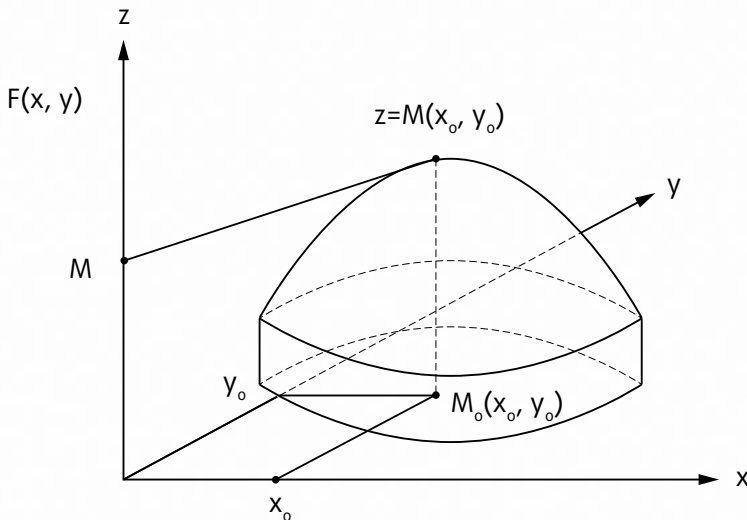


Figure 3. Optimisation task for the target function, if there are no constraints and variables (factors to be optimised) can freely affect the result

The political target function shown in Figure 3 has two arguments (factors that affect the value of the function). It reaches the highest value at the point where the surface $z = F(x, y)$ is located at the highest point above the x, y

plane. To “see” this situation, we need a three-dimensional picture. The spatial drawing has several advantages as compared to the flat drawing if it helps to even partially approach the actual N -dimensional situation.

If the target function was linear, the function itself would have no maximum – the highest value would incline somewhere to infinity. The meaning of the efficiency function is to reflect the public benefit to be achieved. By finding the highest reachable point on the surface $z = F(x, y)$, we reach the highest value of the public benefit.

Variables x, y have their own range of definition. In the presented case, the range of definition of factors can be seen as a projection on the x, y plane. Respectively, the searched maximum can be found at point M_0 , which is the maximal projection of point M of the function $F(x, y)$ on the base in point (x_0, y_0) .

More than 2 factors usually operate in economics and politics. Often enough, to affect the result more precisely, increasing the number of these factors is selected. Increasing as such, without being able to describe the efficiency function well, does not ensure reaching the optimum.

The function shown in the picture has the maximum in the range of definition of variables. The task gets complicated if the maximum is located on the border of the range of definition, unless the efficiency function is a plane.

However, life is not as simple as the reflected task. To give a geometric interpretation for more complicated situations, it is important to understand the role of constraints.

8.7. System of Constraints

To show the role of constraints (in a particular optimisation task, we must view both the efficiency function and constraints), we will start with the simplest one-dimensional task. For tax collection, we will examine two types of constraints:

1. In the form of an inequality $x \geq x_{\min}$
2. In the form of an equation $g(x) = b$

Both cases are shown in Figure 4. In the first case, it is a requirement that every taxpayer must pay at least according to the minimal rate x_{\min} . If the straight line $x = x_{\min}$ is located to the left from the maximum ($x_0 > x_{\min}$) of the function $F(x)$, this constraint will not affect the optimisation result. On the contrary, if the straight line $x = x_{\min}$ is located to the right from the maximum ($x_0 < x_{\min}$) of the function $F(x)$, the optimisation result will differ. We will no longer reach the maximum of the function $F(x)$ and the possible result will decrease due to constraint.

Instead, to get the best result possible, the optimum value will decrease.

In this simplest case, two properties that can be generalised are seen:

- Any constraint either reduces the optimum to be reached or leaves it at the same level;
- The fairness requirement (in this case – that everyone pays at least according to the minimal rate) can reduce the economic result to be achieved.

In the second case, the function $g(x)$ is non-linear that best corresponds to the nature of constraints encountered in practice. An equation reduces the number of freedom degrees – we no longer have anything to optimise and we can only see what the collectible value is in points, in which $g(x) = b$. We want the best from these points (in point $x = A$ the function $F(x)$ is slightly greater than in point $x = B$).

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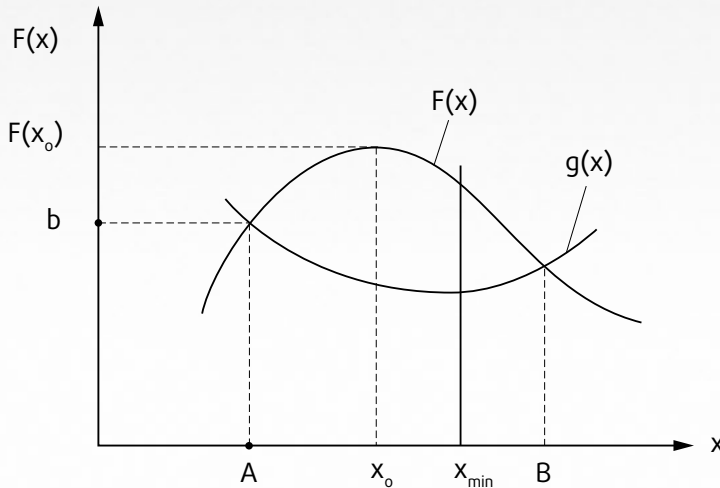


Figure 4. The Laffer curve as an example of one-dimensional optimisation. Revenues presented in the local government budget $F(x)$ depending on the applied duty rate x and two constraints – the function $g(x)$ that only allows to observe two x values, in which $g(x) = b$ and the straight line $x = x_{\min}$ are located to the right from the straight line $x = x_0$.

Drawing of constraints in case of two dimensions becomes more complicated, since the two-dimensional function is now reflected as a surface in a three-dimensional space.

However, the most important conclusions from the aforementioned remain – each constraint is usually manifested as a decrease in the value of the efficiency function.

For example, we can determine non-taxable minimums, determine maximum taxable values, determine groups of persons that will not be subject to taxes or duties at all. In all of these cases we will get a negative fiscal effect.

At the same time, we can get better values for some other efficiency function that also includes the social effect in addition to the fiscal effect. If we supplement the second figure with non-linear effects in the form of an inequation, we will make the picture less vivid.

In the best case scenario, each constraint in the form of an inequation “cuts off” a part of

the previously shown surface $F(x_1, x_2)$. It is highly probable that the inequation cuts off the maximum M from the range of permissible values and the maximum ends up in some lower point. A constraint in the form of an inequation is reflected as a surface (only of another form) just as the function of public benefit.

Hence, each constraint in the form of an inequation reduces the public benefit.

This geometric interpretation shows the role of civil servants and deputies in endeavouring to improve public administration with different legal norms. In determining how many cooks are necessary, what colour the tables should be, how the earned money has to be fairly divided, how public procurement has to be organised, we can only achieve decrease in the public benefit to be ensured.

Each constraint in the form of an equation means a line on the surface. This equation reduces the variable degree of the freedom of

choice. If there are at least two lines on the surface, they might not cross at all and the task does not have any solution at all.

Therefore, determining constraints in the form of an equation, the task can be made unsolvable, which is often the case. Different standards often lead the task of public administration to absurdity and make it unsolvable.

The common trait of all historical democracies is the effort to make more and more fair decisions. There are so many laws and Cabinet Regulations in Latvia that financial resources are insufficient for their fulfilment. It is understood better if so many constraints are put geometrically that no point on the curve $F(x)$ is available any longer.

For example, public procurement is organised within a longer period than the permissible expectancy period for the introduction of any task or structure, and in the end it is not worth constructing.

By taking the path of constraints and prohibitions, the effectiveness of public administration is reduced drastically. Therefore, in many cases it is crucial for a local government to find any legal substantiation that would allow to legally bypass the legislator's plan.

The system of prohibitions has never been aimed at improving anything. In the best case scenario they are meant for civil servants and local government employees to do things determined by the State pursuant to common procedures. Overregulators justify their activities with the need for single fair procedures.

They rely on the assumption that no one can be trusted. Since civil servants (and local government officials) cannot be trusted, decision-makers must be linked to many regulations and a comprehensive control system must be created. However, it is a road to nowhere.

8.8. Dividing a Meeting into an Open and Closed Part

When speaking or writing about public administration, terms such as “transparency” or “openness” are used so often that it even seems strange that limited accessibility information exists.

In case of the State, we will accept that the State might have its secrets. The reason is competition. States compete between each other, therefore they have secrets from each other. Likewise, local governments have secrets from each other, since local governments also compete with each other.

Local governments compete not only with each other but also with State institutions and companies. A local government hospital can compete with a hospital owned by the State. A local government also competes (rarely, yet this situation is both lawful and possible) with the private sector.

With a local government competing with other local governments, the main subjects of competition are the following:

1. resources from the local government finance equalisation fund;
2. State (industry) investments in the territory of a local government;
3. private entrepreneurs that preserve entrepreneurship or make new private investments in the territory of a local government;
4. labour force that causes favourable conditions for the development of a local government;
5. inhabitants that choose another place of residence under the conditions of free movement of people;
6. pupils and kindergarten attenders that can select an educational institution in the territory of another local government.

Even more crucial competition issues are related to local protectionism (insofar it does not affect the EU Common Market, EU legislation allows protectionism in the form of local government aid) and facilitation of local entrepreneurship. Normally, a local government lobbies the interests of its entrepreneurs in national and global markets and faces the competition of other local governments in this area of activity.

During network meetings, it is possible to examine both fully open and sensitive information, the disclosure of which poses a threat to local government politicians. When providing information, one must think of the extent to which this information can be explained and how much this explanation can cost.

Publication of the open part of a network meeting is intended for using innovative ideas that occurred during discussion also in other local governments that do not participate in the discussion of the theme directly. Publication of the open part provides journalists with an opportunity to provide objective information to inhabitants about the problems of local governments and the possibilities of solving these problems.

The open part of the meeting contains the presentation by the network coordinator, performances by the involved experts and discussion on questions set during the open part.

The closed part of the meeting is devoted to discussing sensitive information. This part includes a presentation by the network coordinator, presentations by network participants in relation to the experience of their local governments and future ideas, as well as a discussion on the directions of applying the examined information.

If the public was dominated by an opinion that a local government requires objective and true information about events under the responsibility thereof, the creation of a database would be an issue of a technical nature and the main impediment for its

creation would be the lack of resources to be invested. However, it is not the case. Delaying factors cover a wide range of issues:

1. the public does not always receive objective information. Objective information can reveal failure to fulfil pre-election promises or moving away from outlined goals;
2. participants of the executive authorities (administration) are afraid that information on the results of their work will harm their career and salary;
3. the central government is afraid of the increasing role of local governments that would inevitably follow fuller informing;
4. human rights include norms that protect privacy, thus delaying information accumulation about persons' studies, employment, movement and other crucial issues;
5. commercial law protects business secret, which means unavailability of crucial information about the economic and social development of a territory;
6. statistical legislation that restricts the transfer of primary information to third parties;
7. misconceptions that local governments do not do politics and all information on the "economic" activities of a local government must be publicly available are widely spread;
8. availability of information about public administration is mostly in the official State language, which restricts the adoption of good practice from one country to another.

Each of the problems discussed is either of a global nature or arises from the nature of a person as a social being. Yet, the effects of each factor can be reduced.

8.9. Private Life Protection

Certain international human rights norms are included in the Constitution. It does not affect the duty of Latvia to observe other fundamental rights binding thereto (non-included norms, local governments' rights). However, inclusion in the Constitution additionally stimulates civil servants and local government employees to follow exactly these norms.

Section 100 of the Constitution determines that "everyone has the right to inviolability of his or her private life, home and correspondence". These fundamental rights (just as several others) are not absolute, since the section on the inviolability of private life can be nonetheless violated according to Section 116 of the Constitution:

"The rights of persons set out in Sections ninety-six, ninety-seven, ninety-eight, one hundred, one hundred and two, one hundred and three, one hundred and six, and one hundred and eight of the Constitution may be subject to restrictions in circumstances provided for by law in order to protect the rights of other people, the democratic structure of the State, and public safety, welfare and morals. On the basis of the conditions set forth in this Section, restrictions may also be imposed on the expression of religious beliefs".

Privacy norms included in the Constitution in their essence contradict norms protecting the freedom of information. It is considered that public officials (including local government deputies and higher-ranking officials of a local government's executive body) have no right to privacy – each journalist is entitled, "in the interests of the public", to obtain and disclose any information about the private life of these officials. At the same time, information about persons, which is necessary for fulfilling the functions of a local government, often cannot be retrieved.

The inviolability of private life is protected by the provisions of the Personal Data Protection Law, in accordance with which personal data can only be disclosed upon the consent of the person or in cases especially stipulated by law. The Law includes legal norms arising from

Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

Exaggerated norms of private life protection are determined by both the mentioned laws and industry laws. Thus, a social worker of a local government has no access to information about mental illnesses that defendants or oppressors have been diagnosed with. The availability of this information would allow to make much more exhaustive decisions in the interests of residents.

There are rather many matters, in which it is necessary to process primary information about the movement of particular persons, their employment, achievements in life. This information would ensure a local government an opportunity to implement targeted development, social and business-promoting policies. For these purposes, no data on a particular person are necessary, yet one should know which results describe the inhabitants of a local government in general. However, by hiding the former reaching the latter becomes almost impossible.

Unfortunately, after joining the EU and the administrative-territorial reform, data on parishes and municipal cities are no longer available either (with extremely minor exceptions). The possibility of being able to follow the development of joint territories and finding out whether the goals declared by the reforms are fulfilled after the reform is prevented either consciously or unconsciously.

This failure of the central government is a reason to eliminate this shortcoming. It means that in developing the benchmarking database and working within the framework of cooperation networks, the right of local governments to obtain necessary information will have to be actively lobbied.

8.10. Business Secret Protection

The Commercial Law determines the right of a merchant (in this text, the term "entrepreneur"

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that is recognised internationally and used within the EU is used, without using only the term “merchant” used in Latvian legislation in a specific meaning) to a business secret.

Different explanations of a business secret can be found in laws. The widest definition of a business secret is provided in the Law On Accounting, determining that for accounting purposes, information and data, which are required to be included in the reports of an undertaking, shall not be deemed to be business secrets, while all other accounting information of an undertaking shall be deemed to be business secrets and shall be accessible only for audits, the tax administration for verification of the correctness of tax calculations, as well as other State institutions in cases provided for by legislative enactments.

Not only accounting data can be a business secret. The Commercial Law determines more specific requirements as to which indications information or data must comply with for a merchant to be able to assign the status of a business secret.

The meaning of a business secret is explained by Paragraph 1 of Section 19 of the Commercial Law: “The status of a commercial secret may be assigned by a merchant for such matters of economic, technical or scientific nature and information, which is entered in writing or by other means or is not entered and complies with the following features: 1) it is contained in the undertaking of the merchant or is directly related thereto; 2) it is not generally accessible to third parties; 3) it is of an actual or potential financial or non-financial value; 4) its coming at the disposal of another person may cause losses to the merchant; 5) in relation to which the merchant has taken reasonable measures corresponding to a specific situation to preserve secrecy.”

The status of a business secret can be assigned to matters of an economic, technical or scientific nature and information recorded or non-recorded in writing.

Some of the data used for statistics exceed information to be provided in the annual

account of companies and they have the status of a business secret. The Official Statistics Law prohibits the publication of these data that would allow to identify a business secret in relation to an individual company.

To improve the management of companies owned by local governments, it is necessary to compare these companies with each other and with competing public or private companies.

Annual public accounts of companies can be used as one of the data sources. Anticipated changes to the management procedures of public capital companies and capital shares stipulate the mandatory nature of short-term strategies of these companies. Local governments that will participate in cooperation networks and decide to exchange different data that are usually not published will be able to compare the data of their companies in a much wider context. However, these data cannot be examined during the open part of a cooperation network.

8.11. Observance of Statistical Legislation

According to the Official Statistics Law, the Central Statistical Bureau (hereinafter – “CSB”) shall perform the following functions:

1. implementation of a unified State policy in the field of management, compilation, analysis and publication of the official statistical information;
2. provision of users of statistics with information included in the National Programme of Statistical Information for which the responsibility is borne by CSB;
3. preparation, within the scope of the financial resources of the current year, of the National Programme of Statistical Information, the questionnaire forms for official statistics. The National Programme of Statistical Information, the questionnaire forms for official statistics shall be approved by the Cabinet;

4. taking responsibility for the development of a unified classification system for economic information. The Cabinet shall approve the unified classification system for economic information and the procedures for the implementation and use thereof;
5. co-ordination of the whole flow of statistical information at the national level, as well as the mutual harmonisation of the statistical indicators to be included in State registers and other information systems;
6. co-ordination of the activities of State authorities in the field of statistics, as well as international co-operation;
7. carrying out, upon agreement with the interested private individuals or State authorities, of additional statistical work which is not included in the National Programme of Statistical Information; and
8. performance of scientific research in the field of statistics, business tendency surveys in the branches of national economy, as well as development of prognosis of statistical indicators in accordance with the National Programme of Statistical Information.

The submission of information required for official statistical observations shall be considered a mandatory duty, which shall be performed free of charge. Authorities and organisations which are funded by the State budget or local government budgets shall provide CSB with information regarding the area and utilisation of property, land and buildings, services provided or amount of work carried out, number of employees and their composition, employment remuneration and working conditions thereof, investments, budget funds received, as well as other revenue and use thereof, and assets and liabilities and changes therein. In addition, local governments provide CSB with information about their budgets.

In accordance with Section 18 of the Official Statistics Law:

“(1) Statistical data shall be considered confidential if they directly or indirectly allow for the identification of the private individuals or State authorities regarding which personal statistical data have been provided.

(2) The confidential data collected for statistical purposes only, may only be used for making of summaries and grouping of data, analysis of economic and social phenomena and processes.”

CSB data can be used as a comparable base, insofar they describe the scale of the EU, the national scale, or the scale of 6 NUTS 3 regions.

CSB has many primary data at its disposal that could be perfectly used for determining the effective results of a local government’s activity. Unfortunately, published data are available mostly in relation to NUTS 3 regions or entire Latvia. Only in some cases, data can be found on the territories of local governments. Since joining the EU, a great harm was caused – information is no longer available on districts, which perfectly described the economic development of certain territories of Latvia. After the administrative-territorial reform, statistical data on cities and villages are no longer available.

Anonymised data can be used for scientific studies. Hence, it is actually also possible to receive personal data from CSB, unless personal identification parameters are added to these data. During the project, negotiations were carried out with CSB on these possibilities.

Data on local governments (except for large cities) currently cannot be obtained from official statistics, yet work is being carried out on this issue. It is possible that it will be possible to reach an agreement in the upcoming years with CSB to be able to manage not only State sectors but also regions and local governments.

Participation of local governments in cooperation networks is related to the public benefit, which is thus received by the local society. A proposal of improvements is a document describing conclusions on each local government's problem to be resolved. Some of possible results (in the order of ascending complexity) are described in the text below.

9.1. Lobbying Investments

An investment lobbying plan can include the following:

- Relation of a necessary investment to a local government's plans or programmes;
- Description of the circle of possible investors (including – the EU or State programmes);
- Offers that a local government can make to potential investors;
- Description of the circle of applied lobbying methods;
- A lobbying plan with people on charge and a system for motivating people in charge;
- Procedures for reporting and assessing results.

According to the sense and traditions dominating Latvia, a proposal of investment lobbying can be confidential (an internal document of a local government), which can be discussed during the closed part of a cooperation network for the purposes of improvement.

9.2. Improving Productivity

A local government can offer one or several measures for increasing productivity. It allows to use a smaller number of employees, respectively to increase the salary of these employees.

Increasing productivity requires data collection and analysis on the expediency of a local government's activities (whether certain matters are not overregulated; whether certain activities should be undertaken by the local government instead of the private sector or the Republic of Latvia). The main tool for data analysis can be the principle of proportionality – whether the obtained public benefit corresponds to spent funds. Often enough, some activities involve EU funds that initially seem to be “a blessing”, yet potentially drive the local government into the bondage of large loans with little effect.

One of the most crucial elements is the analysis of the use of working time. Different standards (particularly laws and Cabinet Regulations; however, a great negative impact can also be caused by regulatory enactments adopted by the local government) restrict possibilities of fully using employees during the entire workday. A negative impact is caused by hiring for an indefinite period. In all of these cases, a local government tends to be a lot less effective than the private sector.

A productivity improvement plan can include the following:

- Assessment of effectiveness of the field to be improved;
- Analysis of use of working time;
- Analysis of expediency of the quality level of services;
- Possible solutions (combining several positions; simplifying the structure of institutions; simplifying control and supervision; discontinuing the fulfilment of unimportant functions, etc.);
- Substantiation of the choice of solutions;
- A plan of productivity improvement measures with people in charge and a system for motivating people in charge;
- Procedures for reporting and assessing results.

A matter concerning the publicity of the plan of productivity improvement measures (or determination of limited accessibility) is to be decided politically in each local government. Supporting productivity (as compared to popular employment support) will not be popular at all times and everywhere. The choice of a status is an issue of political strategy.

- Substantiation for choosing certain measures;
- A plan of measures for improving the skill of employees with people in charge and a system for motivating people in charge;
- Procedures for reporting and assessing results.

9.3. More Skilled Employees

The lack of skilful and motivated employees is a growing problem in both the private and public sector. To a great extent, the cause of the problem should be largely sought in the education system, and to an even greater extent – in the ability to select and motivate its own employees.

The central place in the local government's capacity is attributed to human resources.

Skills do not arise from the number or nature of diplomas, yet better education potentially allows to ensure better skills. Skills largely depend on the ability to solve tasks, which is not promoted by the current education system. The ability to solve tasks should be transferred to the decision-making competence of the local government, it can be done by trusting its own employees and allowing them to solve these tasks in their daily work.

The problem of skilful employees can be solved differently, depending on the field, in which the local government wishes to strengthen the skills of its employees. A variant of this plan of measures can be as follows:

- Description of the field, in which skilful employees are necessary;
- Main criteria of a skill, which needs to be developed in the necessary field;
- Description of different levels of the skill on the international and local labour force market;
- Description of possible measures for increasing the level of the skill;

Improvement of skills could be a rather popular measure that can be related to significant expenses. Indirectly, it leads to decrease in the number of employees. Therefore, local politicians have to decide to which extent these measures should be made public.

9.4. Motivation of Employees to Achieve Results

It is possible to motivate for skill, yet it is necessary to motivate for the work done. The main delaying factor for improving motivation is a single motivation system for State and local government employees.

Motivation is normally related to result indicators, the general overview of which is available in Chapter 6 of this Handbook, as well as in the Handbook on the Benchmarking Database.

The financing form suitable for motivating employees is a short-term budget, yet the elements of a medium-term budget can also be included in other forms of the budget.

In any case, it is necessary to define certain resources that will be used if and only performance indicators are achieved. Motivation is also possible in the simplest form – regular weekly or even daily motivation.

A variant of this plan of measures can include the following:

- Description of the field, in which it is necessary to motivate employees better;
- Main criteria, in relation to which it is

preferable to motivate employees;

- Description of possible motivation methods;
- Substantiation for choosing certain motivation measures;
- A plan of measures for improving the motivation of employees with people in charge and a system for motivating people in charge;
- Procedures for reporting and assessing results.

Motivation measures can be more or less sensitive – consequences of their publication require assessment. On the other hand, it is possible that the majority of the selected measures are subject to public reporting in accordance with the applicable legislation.

In any case mutual comparison of different motivation measures, assessment of their effects with relevant discussions in cooperation networks of local governments can ensure a great positive effect.

9.5. Strategy of a Local Government Company

The presence of a strategy, according to law, is a mandatory requirement. Usually, local governments take this issue passively, assuming that a company itself knows what it strategically requires better. Moreover, deputies do not always have a sufficient understanding of company management.

If improvement of any local government's business area is selected as a theme within the framework of a cooperation network, in this case it is possible to discuss in detail the reasons for preserving (or founding) companies, goals as manifestation of these reasons, ways of achieving more effective functioning of companies.

For example, the production cycle can be fully assessed and additional resources, which

could be transformed into profit or used for social purposes, are sought.

A variant of this plan of relevant improvements can include the following:

- Description of governance failures which are the reason for attracting entrepreneurship;
- Description of market failures which are the reason for involving in entrepreneurship;
- Description of a company's social (non-financial) goals;
- Description of a company's profit goals;
- Description of possible means for attaining goals;
- Substantiation for the selected means;
- Company's strategy guidelines;
- Procedures for reporting and assessing results.

9.6. Strategy of a Local Government Office

At the time (1997–2002) there was an idea in the country about functional audits in ministries and institutions. Each functional audit could result in an individual plan for improving the work of a ministry or office. It was offered within the framework of a popular concept in those days of New Public Management, considering that the de-concentration of administration would develop creativity in every institution.

However, the period of application of New Public Management ideas was short. The State Chancellery managed to turn to concentration by endeavouring to subject all institutions to single procedures. Along with the development of single procedures, a concept of strategic plans of ministries was proposed, preventing any attempts to improve State administration in the hardest possible way. Further unification measures made State administration increasingly less effective with each year.

Allowing an office (one particular institution) to improve itself is a serious decision, which still might find response among some local government managers. In this case, differences between the schools of one municipality and differences between institutions in two different territories are stimulated. The spread of information technologies is hardly a delaying factor for different and flexible approaches. There are more problems with soviet stereotypes, which are still spread by supporters of concentration and centralisation.

Improvements in the work of an office should be related to the following:

- Re-assessing activities, how much of the public benefit is ensured by each of the previous activities, proposals on how to reduce appropriate regulatory framework and simplify existing procedures;
- Customer service improvements, assessing appropriate expenses and whether the public benefit from these expenses will pay off;
- Improvement of personnel competences;
- Improvement of personnel motivation;
- Improvement of service technologies.

The most crucial measures (or at least those that can be provided with resources) are selected from the aforementioned and are included in a proposal of improvements as described in previous cases.

9.7. Satisfaction of Selected Groups of Interests with the Local Government Performance

This is a simplified case of the local government's marketing strategy. Since the full introduction of a strategic management procedure is a sufficiently complicated

process that can have a significant impact on the concept of local government management in general, a local government can examine in detail the main part, i.e. the selection of focus groups within the framework of a network.

Direct surveys are usually used for assessing the satisfaction of relevant focus groups.

In turn, the means for increasing satisfaction can be rather specific and can differ significantly in different cases.

In this case, the plan of improvements to the local government's work might include elements such as the following:

- Description of potential focus groups (specific for a local territory);
- Assessment of the potential impact of focus groups on the results of local elections;
- Substantiation of the choice of focus groups;
- Assessment of interests of focus groups;
- Description of means available to a local government, which might increase the satisfaction of focus groups;
- Assessment of influence of negative and positive side effects;
- A plan of measures for improving the satisfaction of focus groups with people in charge and a system for motivating people in charge;
- Procedures for reporting and assessing results.

This Handbook has been developed based on the experience accumulated within the Norway Grants project “Smart Governance and Performance Improvement of Latvian Municipalities”.

The idea of cooperation networks should not be attributed to this project only. LALRG has already used the method of cooperation networks for resolving different issues in its work earlier. However, the project cooperation networks applied the Latvian benchlearning model for local governments, which was developed during the same project (www.ms.lps.lv/en/).

Efforts to modernise public administration, including local governments, have been made in many countries of the world since the mid-20th century. Due to the specific nature of the public nature it is not that simple to improve a company operating in the private sector. In this Handbook these reasons are not discussed in detail, yet they are outlined in every chapter.

The development of local governments is in the hands of local government politicians. They are the persons that received the mandate of voters, in whose interests it is to ensure a constructive dialogue with its voters and the public. Cooperation networks are one of the methods for encouraging local initiatives and helping to support this initiative with facts.

The benchlearning method offered herein, along with the benchmarking database described in the second handbook, will be of assistance to politicians who wish to work creatively, who are ready to search for their own ways and encourage their employees to be just as creative.

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