

## **Government's Cost-cutting Plan as an Unconstitutional Document**

Forum of local authority players, presentation by Mr Edgar Savisaar, the Mayor of Tallinn  
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### **I. INTRODUCTION**

Honourable local authority players, dear guests. Three weeks ago in the Viru Conference Centre when we opened the Fifth Days of Estonian Rural Municipalities and Cities I invited Estonian local authority players to convene again soon in Tallinn in order to discuss what will become of us in the light of the Government's cost-cutting plan. I drew attention to the fact that the cuts are to be made at the expense of local authorities and less insured strata of society, and that there is in fact an alternative for it, which I published in the *Postimees* newspaper on February 17. By today this cost-cutting plan has not only been approved by the *Riigikogu* as an act, but also proclaimed by the President, and now a large part of local authorities is forced to make a negative supplementary budget – something that they might not have even thought of before. Moreover, in the beginning of March the Minister of Regional Affairs surprised local authorities with a new draft of the administrative reform, which threatens to make a mess out of local life.

At any rate, Tallinn which planned on making a positive supplementary budget this spring will have to give up the idea and start cutting costs as well.

Sometimes it seems to me that the present Government is led by the conspicuous desire to put local authorities in the same situation as the Government. So far the Government was going under alone, while local authorities or at least some of them were keeping afloat. However, after these brutal budget cuts a third of local authorities are put in a near-bankrupt state.

Perhaps some of our leaders do not like it that international rating agency Moody's reduced the state's rating while leaving that of Tallinn unchanged; owing to this rating the credit opportunities of the capital have been undoubtedly better than those of the state. After the state's budget cuts our credit rating is likely to be reduced as well. It's a lose-lose situation for everyone when it comes to this Government.

It seems that by autumn local authorities will have intentionally been taken into a state where most of them are unable to provide urban and rural populations with proper services and will experience the detestation of the people. Buses will stop moving, schools, post offices, bank branches and pharmacies will be closed, there will be an exodus of people from rural municipalities. In the autumn people of rural municipalities and cities will punish local authorities for everything, in spite of the fact that the effective functioning of local authorities is made impossible elsewhere.

### **II. ABOUT THE ADMINISTRATIVE REFORM**

Dear participants of the forum, I would like to begin with the most topical issue, that is, the administrative reform. Although these days it is said in quite a loud voice in the corridors of

Toompea that the present idea of the administrative reform has been made public only for drawing attention away from the budget cuts of local authorities, and the Pro Patria and Res Publica Union firmly waves the flag of the administrative reform only for the Reform Party to respond to them with the equally firm 'NO!'. I'm not certain if it is so, but one can expect anything in the election year. Some receive their votes from those in favour of the administrative reform and others from those opposing it. They both receive votes, but no one sees any administrative reform.

Unlike some other politicians, I'm serious about the idea of the administrative reform. You know, the administrative reform started in fact in Tallinn. After Tallinn had actually commenced the administrative reform and the governing coalition frowned on it, the Chancellor of Justice and the Auditor General announced concurrently that the administrative reform covering the entire country is indispensable after all. And right away the Minister of Regional Affairs comes up with a respective plan. I'm pleased that the holders of constitutional offices and a minister came along. We do not have to reason the necessity of the administrative reform in Tallinn or elsewhere in Estonia, but speak about how to do it. However, a reasonable discussion is impeded by a few immaturities.

In his time blog Ken-Marti Vaher put an equation mark between local authorities and corruption – he says there should be 20 local authorities instead of 200 for the very purpose of reducing corruption! The administrative reform is not almighty. Vaher's statements remind me of a passionate Soviet Estonian commentator of foreign affairs who at the beginning of the 1980's replied with a 'Yes' to a question from the hall on whether Reagan's Star Wars programme can be used for striking national freedom movements operating in the jungles of various continents.

Vaher's hope that in the remaining local authorities the police will cope with investigating corruption is as naïve as the belief in the almightiness of the administrative reform. He simply overestimates the capacity of the police as well as the extent of corruption in local authorities. So far they have been able to kick a fuss only in local authorities governed by the Centre Party and so far none of such corruption cases has even reached the courts. I don't think it's about the limited number of investigators. I'd rather say the substance searched for is too little to satisfy the high hopes of the public.

And why should we settle for the mere tenfold reduction of corruption? We should eliminate corruption by ending the existence of all local authorities. Why leave those twenty? This would bring us back to the Estonian SSR. The corruption situation in there is another matter.

As you understand in principle I'm not against the so-called Kiisler's administrative reform. Kiisler's Plan foresees for Estonia a lot of what we have started in Tallinn. And for which the Pro Patria and Res Publica Union unfortunately, probably due to being in a hurry, accused us of.

Kiisler confirms that rural municipality districts will be made in the territory of present rural municipalities. And in order not to make communicating with the local authority more difficult by geographical expansion of the rural municipality, government service points are preserved in the centres of all current local authorities. But we are forming service centres instead of city district governments also in Tallinn! Provision of public services should not get worse, but improve as a result thereof.

I can imagine the Reform Party's love campaign dressed in yellow scarves blowing over Estonia like the wind, telling how they love almost every city and rural municipality government in Estonia, like the city district governments of Tallinn. Still, I encourage the Pro Patria and Res Publica Union to continue a serious discussion as to what the administrative reform really needs.

By the way, in Kiisler's plan it is very interesting for Tallinn whether our neighbouring local authorities, if they must choose, would prefer joining Tallinn or they would like to join other rural municipalities of Harju County? For the time being they would like to remain on their own, but what will be their position once the law forces them to choose? Tallinn has launched the administrative reform and with the help of our own common sense we call on every other local authority in Estonia to continue this reform. Based on Tallinn's example it should be clear for everyone that if we do not launch and carry out the reform ourselves, the Government will try to do it for us not on the basis of the interests of local people, but proceeding from purely political party goals.

The administrative reform has two sides: substantive and technical. Speaking of the technical solution of Kiisler's administrative reform, it is copied from Tallinn's reform plan. In terms of substance the proposals are different. Tallinn made a proposal for merger negotiations to its neighbouring local authorities, but it is a voluntary movement, not compulsory, as suggested by Kiisler. For us, cooperation in these areas where we have common concerns and interests is of primary importance.

In the light of the present budget changes the administrative reform plan is absolutely cynical. On the one hand, they talk about the main goal of the reform, that is, making local authorities stronger, but at the same time they deprive local authorities of their income base. This is not creating strong local authorities, but destroying democracy at the grassroots level.

We are seeing the process of breaking democracy. People were and still are willing to commit their time and energy to retain and further local life. The existence of this will and energy is a value of its own and it must be preserved, kept and protected. People want to organise their life themselves, not give up the right. We can ask, what is the alternative to it? That someone will come from afar and start organising life in Palamuse, Sõrve or Peispiääre? In fact, no one will and the real alternative is that in this case no one will organise public affairs at all.

Do we really have to admit after a while that the economic recession has become a great excuse for another wave of centralisation? Centralisation in decision-making, centralisation in budgeting, centralisation in shaping the living conditions in general. The economic recession has become a universally good excuse, because it seems that no other reasons or explanations regarding the choices and decisions are necessary. It can be used to justify any power grip. It is suitable for reasoning radical budget cuts as well as expedited legislative procedures. It can justify reduction of the income base and limitation of investments of local authorities. It can reason the lay-off of the social infrastructure as well as forceful adoption of the acts and regulations necessary for the Government. But we should ask, for whom and for what are these decisions necessary?

It sounds unbelievable, but perhaps they want to cut the composition of the large and risky electoral body along with the number of local authorities for the next presidential elections?

Insecurity and uncertainty about tomorrow has lifted people's feet off the ground. We are already in the midst of economic uncertainty and unpredictability. Now they want to cement insecurity in the local organisation of life, too.

### **III. ESTONIA AND EUROPE**

Jose Manuel Barroso, the President of the European Commission, said in Prague at the Summit of Regions and Cities last week that without the participation of local authorities it is impossible to bring any country out of a crisis and achieve new economic growth. He warned that if the present policy continues, the ability of local authorities to participate as partners in increasing the competitiveness of states may suffer a deadly blow in some Member States, thereby endangering the entire Lisbon Strategy.

According to the local authorities of Iceland, which has been discussed a lot and which is in an extremely difficult situation, their total budget in 2009 has decreased by merely less than 5 percent in comparison with 2008!!! Compare it with the Prime Minister of Estonia who still brags about offering a loan to Latvia and has punched a much bigger, more than 10-percent hole in the budgets of our local authorities.

As for the attitude towards local authorities Estonia can be compared only with Latvia and the Ukraine. In the Ukraine the state also does not intend to cover the decline of the revenues of local authorities, which will fall by 30% according to forecasts. In January last year less than 6% of the Ukrainian local authorities failed to implement their budgets, but at the end of the same year the share of such local authorities amounted to 90% already. Estonia, Latvia and the Ukraine are worst in Europe when it comes to what they do to their local authorities.

Our northern neighbour Finland is currently discussing a package on increasing the portion of corporation tax allocated to local authorities and additional support to public transport. Finland's lesson learnt from the last great economic recession is the need to preserve jobs – a lay-off of thousands of people is not considered a victory anymore. Finnish local authorities demand that the state increase the amount of money allocated already in 2009. They also want a higher portion of the car tax and excise duty on fuel and want to retain waste tax entirely. They want to lift the maximum limit of real estate tax, receive a portion of personal income tax, and a higher portion of corporation tax. There is not even talk of any cuts to be made by the state at the expense of local authorities. Quite the opposite.

In Sweden which is economically closely bound to Estonia the Finance Ministry's aid package for retaining jobs in urban and rural local authorities is being discussed. It will reach parliament in spring.

In Denmark the government has raised the limits of using the resources of local authorities, which in our context would correspond to increasing the possibility of borrowing. In Norway which does not belong to the EU the association of local authorities has addressed parliament with the request to raise taxes allocated to local authorities and to respectively reduce taxes remaining to the state, in order to secure the revenues of local authorities this year. The government has promised to ensure the retention of the revenue base of the local government sector in 2009. The government's economic stimulation package contained 2 billion Norwegian kroner for the local government sector in order to compensate for the presumable decrease in income tax revenues.

The economic stimulation programme of Germany, the economic engine of Europe, plans on channelling additional 10 billion euros to local authorities for development of education and infrastructure. These additional funds allocated to local authorities amount to more than one and a half of the budget of the Estonian state!

The association of local authorities of the small Austrian state is also demanding that the government allow local authorities to take necessary loans. They also demand that the state and the *Bundesländer* bear a portion of the interest expenses of the loans. Instead of limiting the loan volume they are speaking of increasing it.

At a plenary session in Strasbourg on March 4, Maria Tena, the Director-General of Local Administration of Spain and the Chairperson of the Committee of Ministers of the Congress of Local and Regional Authorities of the Council of Europe said: "At the time of the global economic and financial crisis municipalities are key players in the economic recovery." As one of the countermeasures to the economic crisis, the Spanish government created the National Municipal Investment Fund last November. Many local authorities applied for its funding this January. The goal of the fund is to create jobs directly for 278 000 people.

Local authorities know themselves what they need the most. The whole of Europe is talking, discussing, analysing and arguing over crisis management plans at every level of power. In the beginning of March the assembly of the Congress of Local and Regional Authorities took place in Strasbourg. This was followed by the Summit of European Regions and Cities in Prague.

These days not a municipal forum goes by in Europe which does not seriously discuss the issues of the economic crisis. Local authorities have an important and inseparable, sometimes even the leading role in these discussions.

But Estonia is quiet. The issue of the drastic double cuts that hit local authorities did not resound on the Day of Cities and Rural Municipalities at the end of February. As if no one could believe that such injustice may be done. Although the Association of Cities and the Association of Municipalities did make a couple of statements.

Estonian local authorities and our associations have to express their positions in Estonia and in our joint home, Europe, more clearly and forcefully.

This is not enough if our leaders dispassionately admit that local authorities suffer as a result of reduction of tax revenues due to the economic crisis. This happens everywhere and it is not news for anyone. But the fact that in addition to the economic recess we have fallen victims of the double cuts of our own Government, it is absolutely outrageous in the European context and since the Estonian Government has not listened to us, we have to remind this to them through Europe. Through the representative structures of all our local authorities.

European municipality associations have been the places to meet and communicate with colleagues. Now it is time to come together in the name of the common cause in Europe. We have to be able to use our positions and contacts in the interests of the people of Estonia.

The Plenary Session of the Committee of the Regions will be held on April 20 in Brussels. There will be 7 standing members and 7 alternate members from Estonia. Let us unite our knowledge, skills and contacts and use this forum now to protect our national interests.

A Summit of Social Partners organised by the Committee of the Regions will be held in Prague in May and local authorities should definitely take part in it.

The general assembly of the Council of European Municipalities and Regions (CEMR) representing associations of local authorities will take place in Malmö April 22-24. The CEMR has asked the Member States to respond to questions about the impact of the economic crisis on the local government sector. The Estonian response was given by the Association of Cities. I hope that in Malmö we can raise the issue of the attitude of the Estonian and Latvian governments towards local authorities.

An important forum is also the Congress of Local and Regional Authorities of the Council of Europe whose Monitoring Committee also supervises adherence to the European Charter of Local Self-Government. Estonia has certainly violated the Charter and we have to agree on how to initiate a supervision procedure.

On May 7 the mayors of Tallinn, Riga and Vilnius will meet in Tallinn to plan further actions regarding the economic crisis.

We do not have to trade or ask any favours in Europe, but to stand for the people who have elected us to represent them!

#### **IV. INCOME TAX CUTS AND PSEUDO-CUTS OF FUNCTIONS**

For some reason, the Government of the Republic calls the forceful revision of the funds of local authorities solidarity. Solidarity does not mean that all costs have to be born equally, 50-50. Solidarity means that the stronger one helps the weaker one. Not like in Estonia where weak local authorities have to help the sinking Government through the equalisation fund. For me personally it is most incredible that the cuts began with the equalisation fund, which is meant for assisting the weakest local authorities. These 300 million kroons could have been taken from elsewhere, but it was taken from the weakest, because they knew that the weakest cannot do anything to oppose this.

In one clean sweep the portion of the income tax allocated to local authorities was considerably reduced, thereby increasing state budget revenues. It can be said without exaggeration that these double cuts deprived many local authorities of the opportunity to perform their functions. It is symptomatic that after seriously emptying the pockets of local authorities the idea of a swift administrative reform was announced, supporting it with the fact that local authorities are too weak to perform the functions imposed on them by law.

The City of Tallinn is the largest local authority in Estonia and so far we have done quite well in spite of the fact that the financial status of the City of Tallinn is affected mainly by the same risk factors as the Estonian economy on the whole. It is also clear that we cannot overlook the fact that the financial stability of the City is strongly affected by decisions made at central government level. The losses of the City of Tallinn, that is, the losses of the

residents of Tallinn due to the “cuts” made at the central government level are big. No more road maintenance funds will be allocated by the state after amendment of the Roads Act, no more support to construction of housing, a large portion of the costs of the City Theatre, support to libraries, investment support to objects of national importance and a lot more will disappear. The main source of income of the City of Tallinn is personal income tax. By reducing the rate of allocation of income tax as of April 1 this year from 11.93% to 11.4% the revenues of local authorities will, according to the estimates of the Ministry of Finance, fall by no less than 300 million kroons. According to our estimates this amount is 80 million kroons higher, but this is not the main issue here. The main issue here is that the revenues of the state budget will increase by the same “cut”. Thereby the share of Tallinn in this growth of the state budget is no less than 126 million kroons.

But this is by far not all. Perhaps you remember that when the Taxation Act was amended last year, it resulted in various reorganisations which once again affected the revenues of local authorities. By the mere cessation of the transfer of undeclared income tax the City of Tallinn lost 29.4 million kroons in January. By starting to use one advance payment account the state virtually got the opportunity to use the taxes collected and to be transferred to local authorities for covering the state’s taxes payable.

The City Government of Tallinn asked the Ministry of Finance whether due to the amendments of the Taxation Act we have not received a portion of income tax as well. The response to our inquiry was negative, as could be expected, in spite of the fact that in the public media representatives of the ministry have admitted that the amendment of the Act results in a certain shift in the revenue, which is not compensated to local authorities in any way.

Our calculations prove how the State Treasury has been filled at the expense of local authorities. In February 2009 the income tax on income in January received by Tallinn was 6.3% smaller than last January. At the same time, according to the Tax and Customs Board, the income tax calculated on the taxable income of the people residing in the administrative territory of Tallinn was in fact 2% higher than in the same period a year ago. A simple calculation shows that the difference between the income tax actually transferred and the calculated income tax was -15 million kroons.

The situation in the case of all other local authorities is the same. The taxable revenue of local authorities rose by 2.8% in January, but the income tax transferred in February was 5.3% lower than in the same period last year. Thus, the difference between the income tax actually transferred and the calculated income tax was -39.4 million kroons.

We find that these amounts are certainly worth to be referred to a court in order to protect our interests. In addition to the fact that due to the economic depression the revenues of local authorities will fall anyways, the state found it fair to grab a piece of this as well as of the portion to be allocated to local authorities in order to secure accruals to the state budget in the first place.

As we know the Rural Municipality and City Budgets Act was amended in such a manner that instead of compensation of cuts the obligations imposed on local authorities may be reduced as well. Following this logic the Pre-School Child Care Institutions Act, the Sports Act as well as the Youth Work Act was amended, claiming that as a result of these amendments local authorities will be able to save 452 million kroons per year. The calculation was based on the

aggregate figures of all local authorities. A certain percentage was subtracted from it and it was claimed that this enables local authorities to achieve the savings that correspond to the income tax lost. What they forgot was that the amounts of the equalisation fund were reduced as well. Thus, the cut of the revenues of local authorities with a weaker revenue base was, even in terms of misleading using mathematical tricks, not compensated.

In reality the state has not even planned on reducing the obligations imposed on local authorities when raiding their revenues.

## **V. ADDITIONAL RESTRICTIONS ON BORROWING**

Year by year the public has been told that local authorities cannot manage their finances, that they are inefficient and also tend to borrow, and only the central government is forced to make an effort to keep the deficit of the general government under control. They support such statements using figures which ought to prove that the central government budget has been in surplus throughout years, while the aggregate figures of local authorities have been in deficit throughout years. How can it be that the central government has, over the years, been so successful and local authorities so useless? But isn't the answer in a simple truth that the division of funds between the central and local levels has been wrong and tilted from the start, that is, the revenue base that the state should ensure for fulfilment of the functions imposed by law has been insufficient.

That's why local authorities have been forced to borrow. We cannot blame them for that. The people of Estonia have always wanted to borrow. Even our national epic starts with the words "Borrow me a zither, Vanemuine!"

In addition to reducing income tax accruals and cutting the equalisation fund allocations, additional restrictions on assumption of loan obligations by local authorities and their companies were established through amendments of the Rural Municipality and City Budgets Act. From now on local authorities may assume loan obligations only for the bridge financing and co-financing of externally funded projects or for refinancing obligations assumed before the entry into force of the Act and only on the condition that the officials of the Ministry of Finance approve the loan plan. However, if loan obligations are assumed without the approval of the Ministry of Finance, the Minister of Finance has the right to suspend allocations to the equalisation fund of local authorities and transfers of personal income tax from the state budget.

Thus, the Act established limits to local authorities themselves as well as to bodies depending on them. However, no limits at the level of acts have been established to bodies under the governing influence of the state. In the explanatory memorandum of the supplementary budget of the state it has merely been admitted that "no separate amendment of acts are planned to that end, but the taking of loans by state enterprises is managed via supervisory boards." Based on this it may be claimed that the central government trusts the supervisory boards of state enterprises more than local authorities. If local authorities do not follow the restrictions provided by law or the rules of coordination with the Ministry of Finance, sanctions will be imposed, but in the case of state enterprises nothing happens if their supervisory boards come into conflict with the "conscience".

Not Tallinn or any other local authority in Estonia wants to take a loan in order to waste it on something unnecessary. According to the law, local authorities have been allowed to take loans only for investment. As we know, not many funds have been allocated to the "revenue base of local authorities" for investment purposes. The little money that the state has ever allocated to local authorities for investments has been traditionally allocated based on single decisions. Tallinn has never much benefitted from these "allocations". Unfortunately, investments cannot be postponed forever or cancelled entirely, no matter what the times are. It's not like anything extraordinary is done in the framework of investments, except to keep the infrastructure indispensable for provision of public services usable. High-quality education cannot be ensured solely by having teachers and paying them wages, if there are no rooms for studies; the child care service cannot be rendered if there are no nursery schools or they are substandard; local authorities must be able to ensure the maintenance of roads; it is not sufficient to simply clean the streets, etc. Availability of funds solely for covering operating expenses is not sufficient, because it is necessary to have enough funds for keeping the property in order and develop it.

The City of Tallinn has often been criticised because in the budget of 2009 we planned on taking a loan of 600 million kroons, most of which had been planned for constructing roads. At the same time it is forgotten that in 2009 the City of Tallinn intended to invest more than 1.2 billion kroons. Thus, we intended to contribute more than a half to the investments. Sadly, as a result of the cuts made in the supplementary state budget we cannot deliver even that.

## **VI. TRANSITION TO THE EURO AS ANOTHER MYTH**

Our Government has told us that transition to the euro is in the public interest. This goal is said to be so holy that they are willing to sacrifice local authorities for it. But what they do not speak of is what rights the state assumes. Let us look at what rights the Government assumes under the supplementary budget under this cover:

1. The cash reserve was reduced by the former 2.8 billion kroons to 100 million kroons. Such reduction of the cash reserve refers to the fact that the state no longer has an operatively usable reserve, because the reduction is 96 percent.
2. The limit of expenses exceeding accruals was raised from 8.5 billion kroons to 12 billion kroons.

Although the supplementary budget prepared for a deficit of 8.5 billion kroons, this budget change shows that in reality the situation is much worse. It is incomprehensible why the government has kept quiet about it, because it is long known that the prerequisite for resolving crises is clear admittance of the situation.

3. The permitted outstanding balance of the budgetary loan was increased from 5.5 billion kroons to 9 billion kroons and the permitted outstanding balance of the loans granted by the Government of the Republic was increased from 2 billion to 3 billion kroons.

The increase of the outstanding loan balance shows that the liabilities of the state and state enterprises may be increased. It is odd that at the same time local authorities are under attack for their obligations, even if these remain within the limits permitted by law.

4. The extraordinary pension reserve may be used for balancing running revenue and expenditure.

The use of special reserves for covering anonymous running costs is unspeakable and shows the inability of the government to engage in any saving of costs whatsoever.

5. The state is planning on covering 3.5 billion in expenses out of the stabilisation reserve.

In essence, it is appropriate to use the stabilisation reserve for ensuring transition to the euro, but as it stands, the plans on transition to the euro still contain a lot of confusion. The use of the stabilisation reserve must be backed by a clear action plan. Especially a clear vision of the balance of revenue and expenditure and restoration of reserves in the future.

But all these items refer to the fact that the Government's actions or, to be more precise, inactivity will cement the budget deficit. The budget is not aimed at stability, but filling up the existing and future holes. This will not bring the euro any nearer to us.

Unnoticeably, the state has transferred to budget deficit. By its actions the governing coalition deceives the President of the Republic who has made the transition to the euro a part of the national agreement in the Declaration of his Cooperation Assembly.

The transition to the euro at the rate of 1:16 is possible only if we have first stabilised our economy and begun growing again. Yet the governing coalition does not speak about it. They speak only about the budget, and not the economy, but one cannot put an equation mark between the two.

## **VII. CONSTITUTIONAL INSTITUTIONS DO NOT GUARANTEE THE AUTONOMY OF LOCAL AUTHORITIES**

We find that local authorities do not have any true constitutional guarantees or any actual opportunities to stand up against violation of their rights by the central government. For instance, on at least eight occasions in the last two years the City of Tallinn has addressed the Chancellor of Justice with the request to check the compliance of the legislation of the Republic of Estonia with the Constitution and acts. The Chancellor of Justice has rejected virtually all requests of the City. In principle, the Chancellor of Justice has refused to resolve the requests of the City of Tallinn, recommending that these be submitted to the Supreme Court in spite of the fact that the legislation in force does not provide for an opportunity to refuse examination of provisions of legislation based on requests made by local authorities.

We know that similarly the Chancellor of Justice has refused examination of the constitutionality of legislation of general application requested by various other local authorities and the Association of Cities. Therefore, in the last year the City of Tallinn has raised the issue of the constitutionality of various acts violating the rights of local authorities before the Supreme Court. For instance, the City of Tallinn has submitted to the Supreme Court a request to annul various provisions of the Accounting Act, the General Rules of Accounting, Guideline No. 17 of the Accounting Standards Board, the National Audit Office Act, the Local Government Council Election Act, the Taxation Act, and other legislation.

In the middle of the 1990's we considered the European values of the European Charter of Local Self-Government self-evident. Today it seems that some of the political leaders have forgotten these values. Therefore it is important to remember them.

In recent times the unpleasant practice whereby draft acts directly concerning local authorities are formally submitted for hearing the positions and proposals of local authorities, but the decisions are made without waiting for the deadlines suggested by the ministries themselves to arrive. The most recent example is the draft regulation establishing additional borrowing limits to local authorities, which was submitted for the round of approval on March 3 with an approval deadline of 17 March 2009, but the decision to adopt the regulation was made already on March 5.

**Let me give a few more examples:**

- On December 19 last year the Ministry of Education and Research published the draft “Establishment of Minimum Wages for Grades of Teachers of Municipal Schools”. Approvals were expected by January 7 this year. In fact, no approvals were expected and the Government adopted the regulation on December 30.
- On 27 January 2009 the Government adopted an order regarding distribution of funds for road maintenance between local authorities in a total amount of 378 million kroons. This draft was never even submitted to the round for approvals!
- On 25 February 2009 the Ministry of Finance published the conditions and procedure for the allocations of the equalisation fund of local authorities and stated that it expects approvals not later than by March 11. What is utterly comical is that the Regulation of the Government of the Republic on this very matter had been adopted six days earlier, on March 5, and no one even intended to wait to hear what local authorities think about it.

**VIII. FINAL REMARKS**

We find that in the present situation the cutting of the revenue base of local authorities is especially inappropriate and short-sighted. It will cause even more serious problems in the future. Cuts of operating expenses and investments will result in a chain reaction in the form of loss of jobs in the public and private sectors, which in turn will reduce tax revenues and thus give rise to new budget cuts, which will again raise the issue of reducing jobs, etc.

The Government does not want to admit the fact that local authorities are the ones whose costs in difficult times rather increase in order to help people in need.

Local authorities feel that they are responsible for people. We find that the Government has acted irresponsibly. Local authorities cannot accept that.

**What can we do?**

**Firstly**, we can address the same people in the cities and rural municipalities whom we represent and whose interests we protect. We can explain to them the reasons for the current situation and how to come out of it.

Our people are smarter than it is thought and they see further than in the game show "Who Wants to Be a Millionaire?" or in the weekly comedy programme "Ärapanija".

Some politicians seem to be bragging about who has given up more of their election promises. But in local elections the ones who keep their promises will certainly win.

**Secondly**, to protect its interests Tallinn will apply to the Supreme Court and ask for its support so that our leaders would respect the Constitution and the autonomy of local authorities established by the European Charter of Local Self-Government. Those of you, who feel that their rights have been stepped on, join us! I believe that the Estonian judicial system is fair and follows the law.

**Thirdly**, we will address our European colleagues. There are quite strong self-government organisations in Europe whom we ourselves have created illusions of democracy in Estonia. We will tell them how things really are and ask for their support so that local authorities would finally be helped back onto their feet in Eastern Europe.

**Fourthly**, we will make the forum of local authorities a sustainable process where we meet and try to formulate joint positions, harmonise them and exchange opinions. This could be our way which ensures that local authorities will truly be a partner who is listened to and taken into account by the Government.