

OECD Multi-level Governance Studies

Enabling Inter-Municipal Shared Service Provision in Lithuania

PROPOSED LEGAL AND INSTITUTIONAL FRAMEWORK
AND PILOTING APPROACH IN TAURAGĖ+ FUNCTIONAL
ZONE



Funded by
the European Union

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Foreword

Lithuania is experiencing rapid demographic change, with the population ageing and significantly shrinking in recent decades, and expected to continue in the coming years. This has put pressure on the provision of public services, especially at the municipal level.

This report provides insights on those pressures and recommendations that can address them, whilst also mitigating territorial disparities, fostering social inclusion and enhancing the accessibility, affordability and quality of essential public services.

Lithuania requested support to on-going structural reforms from the European Commission (DG Reform) under Regulation (EU) 2021/240 establishing a Technical Support Instrument. The request was assessed by the European Commission in accordance with the criteria and principles referred to in Article 9 of the TSI Regulation. Following the assessment, the European Commission decided to fund the request and provide technical support to Lithuania. The European Commission has awarded grant to the Organisation for Economic Co-operation and Development (OECD) to provide assistance based on the request from Lithuania.

The action contributes to ongoing efforts by Lithuania on its nationally applicable legal, fiscal and institutional framework to enable shared service provision across several municipalities and includes findings from a pilot of this framework conducted in the TAURAGĖ+ functional zone in Lithuania in 2018-2023.

The report also draws lessons from peer country experiences, and in particular Finland, as requested by Lithuanian authorities, where inter-municipal cooperation has been used successfully for decades.

This report takes stock of the challenges inherent to the legal, fiscal and institutional frameworks for shared service provision in Lithuania, such as the gaps and weaknesses of national laws and regulations to facilitate collaboration at the municipal level, the lack of specific guidance to engage in inter-municipal experiments, sectoral fragmentation and the low financial autonomy of municipalities, which reduces incentives to identify cost-saving measures.

Along with the recommendations, the report also provides two roadmaps for piloting primary healthcare and LTC services in Tauragė+ functional zone (Jurbarkas, Pagėgiai, Šilalė, Tauragė municipalities), as requested by the Lithuanian authorities.

The report was approved on 26 August 2024 by written approval procedure under the reference [CFE/RDPC(2024)5].

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Abbreviations and acronyms

ALAL: Association of Local Authorities in Lithuania
CPFA: Certified Public Finance Auditors
COFOG: Classification of the Functions of Government
CPMA: Central Project Management Agency
EPCI: Public Establishment for Inter-communal Cooperation
IMCA: Inter-Municipal Cooperation Agreement
JMA: Joint Municipal Authority
JMC: Joint Municipal Company
JMO: Joint Municipal Organisation
EU: European Union
GP: General Practitioner
IMC: Inter-municipal cooperation
ITI: Integrated Territorial Investment
LAI: Local Autonomy Index
LLSG: Law on Local Self Government
LTC: Long-Term Care
MoH: Ministry of Health
MSSL: Ministry of Social Security and Labour
MHC: Municipal Health Centre
NHIF: National Health Insurance Fund
PIT: Personal Income Tax
PHC: Primary Health Care
PPP: Public-private partnerships
RDC: Regional Development Council

Executive summary

Since 2000, Lithuania has undergone significant demographic changes, characterised by ageing, low birth rates and external migration, with the country's population decreasing by more than 20%. These trends, combined with internal migration, have increased pressure on public services provision especially in shrinking rural and peripheral areas and have created disparities with growing urban centres like Vilnius. In response, Lithuania is exploring, among other measures, shared municipal service provision to enhance the efficiency, accessibility, and quality of public services, aiming for sustainable, high-quality service provision nationwide. However, these efforts are facing challenges. These include the legal framework that does not support shared services provision at the local level, as well as fiscal and institutional limitations. To fully benefit from shared municipal services, a comprehensive approach is needed.

This study evaluates the framework for shared services provision in Lithuania across key policy sectors and proposes interventions to establish a supportive legal, fiscal, and institutional policy environment for shared services provision. The report begins with setting the scene (Chapter 1). It then provides an analysis of the Lithuanian framework for shared services provision (Chapter 2). A description of the Finnish model of shared services provision is presented in Chapter 3, giving various examples from legal, fiscal, and institutional practices that could inform Lithuania's efforts to reform and facilitate shared services provision. Drawing on the analysis and examples of effective shared services provision practices from other countries, the study formulates recommendations and an action plan to reinforce the legal, fiscal, and institutional foundations for shared municipal service provision in Lithuania (Chapter 4). Finally, the report outlines two Roadmaps (Chapter 5) developed in this project for two selected services (primary healthcare and long-term care services) to support Lithuania in implementing pilots for shared services provision projects within the Tauragė+ functional zone.

Key findings

The legal framework for shared municipal service provision is complex and lacks sufficient detail to guide the establishment and governance of municipal collaboration. The legal provisions for shared municipal services in Lithuania are weak and incomplete, making it difficult for municipalities to establish shared services provision. Currently, these provisions are spread across different laws, requiring municipalities that want to collaborate with others to consult various legal documents. This fragmentation complicates the system for municipalities and can strongly discourage them from starting cooperative efforts. In contrast, many other EU countries have simpler and more straightforward regulations.

The Law on Local Self-Government (LLSG) falls short in guiding shared services provision efforts. While the Law on Local Self-Government (LLSG) mentions three forms of municipal shared service provision, these categories are only broadly defined, leading to uncertainty about the specifics of implementing municipal shared service provision, particularly the practicalities of establishing collaborative agreements for shared objectives. This is in sharp contrast with practices in several other countries, notably Finland, where similar laws to LLSG contain the bulk of the regulation concerning the establishment, management and governance of shared service provision.

A low degree of municipal fiscal autonomy and lack of specific incentives limit municipal shared service provision. Despite a substantial increase in municipal spending responsibilities in sectors like education, healthcare, and social protection, municipalities have not gained corresponding increases in own revenue generation. Over 90% of municipal funding is based on central government grants. This lack of municipal fiscal autonomy significantly undermines the motivation for bottom-up shared services provision initiatives. Furthermore, the absence of specific funding for joint municipal initiatives contrasts with practices in various OECD countries, where financial incentives and other regulations are designed to promote municipal collaboration, suggesting that Lithuania could benefit from a more integrated and incentivised funding framework in the budget law to enhance municipal shared service provision.

Fiscal constraints and the system of earmarked state subsidies for delegated functions discourage cooperative initiatives. State subsidies for delegated functions limit municipalities' flexibility, as unused funds must be returned. This requirement discourages initiatives for cost-saving shared services provision. Also, the inability to reallocate funds due to earmarking hampers local governments' efforts to meet emerging local needs or priorities. Although municipalities often collaborate to pool resources for more efficient service delivery, better accessibility, or improved quality, the requirement to return savings from these collaborations might deter them from entering such partnerships due to the risk of losing the saved funds.

Boosting municipal administrative skills, standardising data on service costs and usage, and fostering trust among municipalities are essential steps to improve shared services provision in Lithuania. Remote and rural municipalities in particular face challenges such as limited financial resources and a shortage of skilled workers. Their weak administrative capacity combined with lack of standardised data on municipal costs and service usage hinders the effective establishment and management of municipal shared service provision, complicating strategic planning for shared service provision. Additionally, a trust deficit among municipalities obstructs collaboration. Addressing these challenges through targeted interventions to enhance administrative capabilities, data harmonisation, and trust-building is crucial for the success of municipal shared service provision.

Key recommendations

Establish a clear legal base for municipal shared service provision. A solid legal framework is essential for facilitating effective shared municipal service provision. Currently, the legal regulation of shared services provision is scattered across various laws, making the process for establishing municipal collaboration complex and discouraging municipalities. It is recommended to consolidate the provisions concerning the establishment and governance of shared municipal service provision into the Law on Local Self-Government (LLSG) to improve legal clarity and operational efficiency. This would also necessitate adjustments in existing legislation to eliminate duplication and ensure seamless alignment with the revised LLSG. Here, the inspiration from the Finnish approach, which specifies shared services provision forms and foundational regulations in the Municipal Act, supported by sector-specific legislations, would be useful. While in most cases the LLSG should form sufficient legal basis for establishing shared service municipal provision, in some cases references to other relevant laws would be still needed. In addition, should Lithuania consider it necessary to establish a mandatory shared municipal service provision for some specific municipal services, the sectoral laws should contain the specific regulation concerning such collaboration.

Lithuania needs to enhance its legal framework regarding shared services provision by specifying authorised forms of shared services provision with greater precision. The existing LLSG sketches out three the forms of collaboration only broadly, leaving room for ambiguity in their practical application. To promote wider cooperation between municipalities in services like transport, healthcare, education, and social services, it is recommended to significantly expand and clarify the legal provisions for shared services among municipalities. Introducing specified forms of municipal shared service provision: joint

decision-making bodies, joint public staff positions (these can be new or existing human resources), joint municipal authorities and joint municipal companies — and setting clear guidelines for these collaborations will offer municipalities a straightforward route to establish cooperative arrangements. Additionally, the law should require the creation of a comprehensive agreement for establishing municipal shared service provision. This agreement must cover critical details like the entity's functions, responsibilities, structure, and composition, alongside mechanisms for cost calculation, cost sharing among participating municipalities, and stipulations on the agreement's duration and termination clauses. Enhancing legal precision in this manner will better equip municipalities to undertake a variety of cooperative ventures, effectively bridging the current legislative gaps.

Create an enabling funding framework to foster municipal shared service provision. Currently, with almost 90% of municipal funding coming from central government grants (consisting of municipal share of income tax revenue - considered as a general grant - and the state subsidies for delegated functions) and 36% of these funds earmarked by the central government, municipal fiscal autonomy is significantly restricted. This limitation may diminish the incentive for municipalities to pursue shared service provision. Enhancing municipal fiscal independence is crucial for incentivising more efficient and quality service solutions through municipal shared service provision. Fiscal incentives should be structured to promote, rather than discourage, cooperation by offering financial rewards for joint projects and ensuring municipalities benefit from the cost savings of such collaborations. Recommendations to achieve this include increasing municipal revenue autonomy, reforming the central grant system to municipalities to empower municipalities with greater resource allocation flexibility, reducing the earmarked state subsidies for delegated functions in favour of general-purpose grants, allowing municipalities to keep savings made from shared services provision, and providing temporary assistance to support the initiation of joint services or projects. These steps aim to motivate municipalities towards cost-efficient and improved service delivery through shared service provision.

Adopt flexible and equitable cost-sharing models for shared services provision based on reliable cost assessments and solid accounting practices. To facilitate fair contributions among member municipalities, it is, firstly, recommended to use the full cost funding, which includes both direct and indirect service costs. To share the full costs among the member municipalities, two models are recommended: the matching principle and the per-capita cost sharing. The matching principle, which allocates costs among the member municipalities according to service usage by residents, ensures fairness but carries some budgetary risks for municipalities. Such a method can be used in case of health care for example. Alternatively, population-based cost sharing offers simplicity by distributing costs according to municipality population size but may lack incentives for cost control. This method could be used in case the benefits are divided equally among member municipalities, or if the benefits are hard to measure. In Finland, this method has been used in many shared services such as rescue services, advisory service to farmers, joint procurement, and joint public transportation. Other methods such as equal share contributions, ability-to-pay contributions, and hybrid models offer additional flexibility and fairness in cost distribution, catering to the varied circumstances and objectives of shared services provision projects. Adopting these models will enable Lithuania to foster more effective and equitable shared services provision. The LLSG should incorporate a regulation requiring municipalities to establish a cost-sharing model within the founding charter for the provision of shared services. However, the decisions regarding the specific type of cost-sharing model to be implemented should be left to the municipalities themselves. This report recommends that CPMA acts as an expert organisation to help municipalities establish shared service provision, and defining the right cost sharing method should be part of such consultation.

Incentivise shared services provision by strategically utilising central government grants to municipalities and by removing budgetary restrictions for municipal collaboration. Directing central government grants to collaborative municipal entities rather than individual municipalities in specific cases could significantly support joint initiatives, making them financially appealing and fostering resource and expertise pooling. The legal provisions for such central government grants could be made in a specific section of the budget law or in LLSG for funding collaborative bodies. For instance, in Finland, while the general-purpose grant to municipalities is defined in the law of intergovernmental grants, in case of secondary education (vocational schools, gymnasiums) and in case of polytechnics, the grants are paid directly to providers. Education service providers include municipalities, joint municipal authorities (shared municipal service provision), municipal companies and private bodies. In addition, Lithuania should consider removing unnecessary budgetary restrictions for joint municipal actions by improving access to finance.

Establish clear and tailored fiscal rules for municipal shared service provision. Recommendations include adopting a comprehensive oversight mechanism with regular financial reporting, audits, and performance evaluations. Extending existing municipal fiscal regulations to collaborative arrangements with necessary adjustments acknowledges their distinct nature and operational requirements. Furthermore, empowering member municipalities to play a proactive role in monitoring and intervening ensures stability and fosters a culture of accountability. Periodical financial reports (quarterly or monthly if considered necessary by the member municipalities) provided by the management of the collaborative bodies to the decision-making body and the member municipalities is a necessary requirement for ensuring that member municipalities have the information on the financial position of the collaborative body. The LLSG should regulate that the founding agreement or charter must include an economic and operational monitoring system and reporting to the member municipalities. Implementing budgetary controls and addressing soft budget constraints through penalties for unauthorised overspending will encourage prudent fiscal management. It is recommended that collaborative bodies are assigned a balanced budget rule with the requirement that any exceeding in the budget must be approved by member municipalities in advance and that any deficits should be covered within a certain time limit (for example within 3-4 years).

Reinforce the role of the Central Project Management Agency (CPMA) in supporting municipal shared service provision. Lithuania would benefit from an advisory service for municipal shared service provision. Given the current legal mandate and the functions already assigned for CPMA to support government agencies and municipalities, CPMA would be well-positioned to provide technical support to shared services provision initiatives across Lithuania. Recommendations for enhancing CPMA's capacity include ensuring regular funding for CPMA for providing this support as facilitators of forums for dialogue, sharing of success stories, and organising networking events on shared municipal services. Additionally, providing CPMA with the authority to offer technical, legal and administrative support for municipalities embarking on shared services provision projects can significantly ease the collaboration process. This includes assistance in drafting founding charters, helping municipalities to establish cost-sharing agreements and mechanisms, and recruiting project managers to support municipal collaboration efforts. Also, the competence network (*Kompetencijų tinklas*) could be involved in this work for advice.

Enhance the standardisation, collection and analysis of data related to municipal costs and service usage. Key recommendations include developing a unified data collection framework to ensure consistent and comparable data across municipalities, implementing standardised classification and reporting guidelines, and investing in the training of municipal officials and service providers. Additionally, promoting data sharing and transparency, integrating data collected from municipalities with national databases, regularly reviewing data collection methods, leveraging IT technology, and fostering collaboration among stakeholders are crucial steps. Standardised information on costs and service use collected from municipalities is necessary for enabling informed decisions on establishing municipal collaboration and shared service provision.

Establish a continuous monitoring and assessment mechanism to evaluate the impacts of municipal shared service provision. Developing indicators to measure service quality, costs, usage, and accessibility is crucial not only for shared services but also for planning and development of municipal services in general. Furthermore, implementing performance management procedures, conducting regular reports, and carrying out citizen satisfaction surveys will provide essential feedback and ensure that shared services initiatives effectively meet community needs. Examples of indicators for primary healthcare (PHC) and long-term care (LTC) services are discussed in Section 5, with additional examples included in the Annex.

1 Setting the scene

Lithuania has faced rapid and significant demographic challenges over the last decades, including aging, population decline, external and internal migration, which have affected the provision of essential public services, such as housing, education, healthcare, social services and long-term care services, and increased territorial disparities. In response, Lithuania is examining the opportunities offered by shared municipal service provision, wherever appropriate, to ensure these services are widely available, accessible, affordable and of high quality.

1.1. Lithuania faces rapid demographic changes

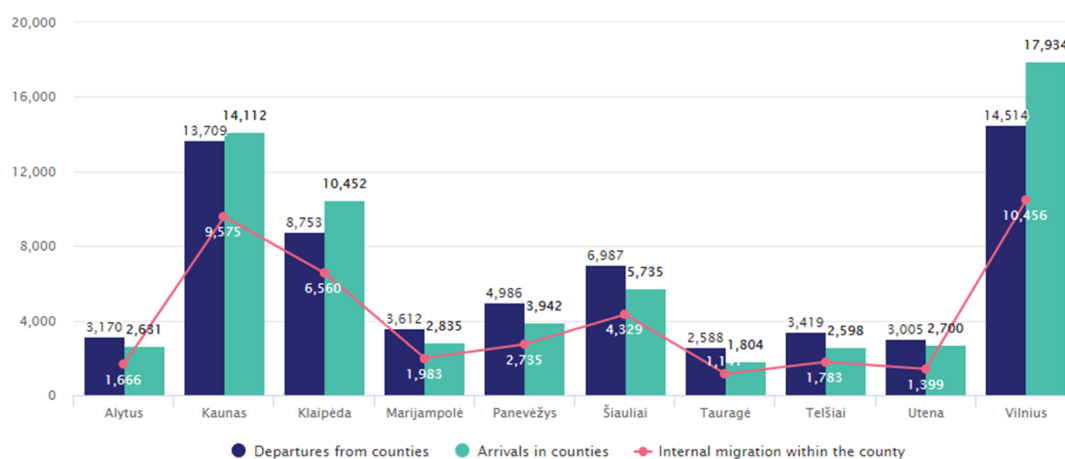
Lithuania is facing demographic trends since the last decades, driven by ageing and population shrinking, which pressure the provision of public services in the country and increases its asymmetric geography. The population has declined by a fifth since 2000, with strong variation across the country. Population has decreased between 6% and 12% in the largest cities¹ (Kaunas, Klaipėda, Panevėžys and Šiauliai) from 2011 to 2021, while it grew by 4% in Vilnius at the same time. The largest population drops were recorded in Pagėgiai municipality, Skuodas, Pakruojis, Kelmė and Ignalina district municipalities, which have lost around one-fifth of their population respectively since 2011 (OECD-UCLG, 2022^[1]).

Demographic challenges are mostly driven by a rapid ageing population. The old-age dependency ratio is expected to grow from 20% in 2019 to 32% in 2050, above the OECD average (18% in 2019 and 27% in 2050) (OECD, 2022^[2]). Life expectancy in Lithuania was also the third lowest in the EU (5.5 years below the EU average). Although it has risen significantly in the 2010s, the impact of the pandemic was a major step back in 2020 (OECD/European Observatory on Health Systems and Policies, 2021^[3]). The old-age gender gap is also one of the largest across OECD countries, with men's life expectancy being among the lowest and women's life expectancy close to average (OECD, 2022^[4]). The central government expects the costs related to ageing (including pensions, health and LTC) to increase from 15.3% GDP in 2019 to 17.6% GDP in 2060, of which 1.3 percentage points of the increase being linked to healthcare and LTC (OECD, 2022^[4]).

Demography is also pressured by past emigration of young population and low levels of immigration (OECD, 2018^[5]). Net emigration was negative from 2000 to 2018 in Lithuania, although it has rebounded since 2019. The distribution is uneven across the country, leading to territories with low density of population. Net emigration was negative in all 10 counties², on average between 2000 and 2021, at the exception of Vilnius county. The lowest net emigration was recorded in Kaunas county, Šiauliai county and Panevėžys county (i.e. central and northern parts of the country) (Lithuania Statistics, n.d.^[6]). The majority of emigrants were young, well-educated population (OECD, 2018^[5]) and male since 2019.

Internal migration is another demographic challenge in Lithuania. Net internal migration was negative in most counties in 2021, at the exception of Vilnius county, Klaipėda county and, in a lesser extent, Kaunas county (Figure 1.1). By contrast, the Šiauliai county and Panevėžys county have been most affected by internal migration in 2021 (Lithuania Statistics, n.d.^[6]). Remote and peripheral areas are particularly affected as the active population is migrating towards larger agglomerations (OECD, 2022^[4]).

Figure 1.1. Internal migration by counties in Lithuania (2021)



Source: Lithuania statistics

1.2. Demographic challenges pressure the provision of essential public services in Lithuania

Rapid demographic changes will significantly affect economic, labour market, social and public governance, as well as several public services in Lithuania (OECD, 2023^[7]). Limited access to public services and the concentration of services in a few urban places, such as for secondary and tertiary health services, are also likely to accelerate migration from rural and remote areas to cities and towns. The declining population density in the losing regions and the growing demand for services in the areas receiving an inflow of population challenges the delivery and funding of essential public services, notably in health and social care service provision.

Several essential public services will be affected by these demographic changes, such as housing, education, and in particular, healthcare, social services and LTC (OECD, 2023^[7]). Ageing and shrinking population trends have, for instance, strong implications in housing, with a high and growing share of older people living alone in Lithuania compared to OECD countries (about 42% of people aged 65 and over live in single-person households, the third-largest share in the OECD, in increase since 2010). This trend is coupled with a continued migration to cities, with around 60% of the population living within or in the neighbourhood of the largest cities (30% in the capital region Vilnius, 20% in Kaunas and 12% in Klaipėda), which is likely to increase in the coming years and put pressure on housing supply and prices in cities (OECD, 2023^[8]).

Rapid demographic challenges in Lithuania, such as ageing, will also significantly affect healthcare, social services and LTC. The demand for healthcare and LTC services is likely to increase in the coming years with ageing, the latter being already high in the country (around 22% of older persons is estimated to have LTC needs in Lithuania, above the EU average of 19%) (OECD, 2022^[2]). These changes call for a strong re-evaluation and design of new approaches to ensure adequate affordability, availability and accessibility to quality public services, and to support the socially vulnerable population. Demography is also creating pressures on growing healthcare and LTC spending. Healthcare spending in Lithuania is below the EU average, whether measured per capita (EUR 1 885 compared to EUR 3 521 respectively) or as a share of GDP (7.0% compared to 9.9% respectively), and total spending on LTC per capita is almost half the EU average. In addition, out-of-pocket payments remain high compared to EU average, contributing to inequitable access to LTC services (OECD/European Observatory on Health Systems and Policies, 2021^[3]; OECD, 2022^[2]).

Given the demographic challenges and pressure on public service provision that they generate, there is a strong need for more effective public services delivery at the local level. Improving the shared provision of public services, such as through shared municipal service provision, is one possibility to enhance economies of scale and reduce costs. Internalising spillovers in public service provision, improving the quality of subnational public services, increasing subnational administrative capacities, and more generally improving the governance and efficiency of subnational governments, are potential benefits of shared services provision (OECD, 2019^[9]).

1.3. The policy response to improve public services delivery in Lithuania: Enhancing the framework facilitating the shared service provision at local level

Lithuania is examining the possibilities offered by shared municipal service provision wherever appropriate. This initiative seeks to mitigate territorial disparities, foster social inclusion, and enhance access to essential public services. By adopting this approach, the reform aims to elevate the efficiency and innovation in the provision of critical services such as education, healthcare, and social care, among others. It emphasises ensuring these services are widely available, accessible, affordable, and of high quality.

Furthermore, the aim is to attract both local and international investments, with the ultimate objective of cultivating a high-quality living environment. By improving access to and the efficiency of service delivery, the initiative is poised to strengthen territorial cohesion, augment the capacity of local administrations, and facilitate the realisation of the European Pillar of Social Rights. This comprehensive strategy underscores Lithuania's commitment to enhancing the well-being of its citizens and fostering a more inclusive, innovative, and sustainable future.

To aid the reform and to prepare for the implementation of the 2021-2027 EU ESIF support via the Integrated Territorial Investment (ITI) approach, the government started a pilot project in the Tauragė+ functional zone in late 2020. This zone includes Tauragė, Pagėgiai, Šilalė and Jurbarkas municipalities, with prior experience in shared municipal service provision. They have agreed on joint activities' scope and made an umbrella agreement, including participation and investment period. The pilot focuses on PHC and LTC services access. In Lithuania, the weak legal base for shared services provision has been identified as significant issue. Other challenges include coordination, joint planning, joint public procurement, implementation, joint asset management, accounting, and responsibility division. There are also issues with jointly created infrastructure ownership, use, and joint services financing in member municipalities' budgets.

Notes

¹ Lithuania has a single-tier subnational government, which is made up of 60 municipalities. Municipalities are large compared to OECD and EU averages. The average municipal population size is about 47 000 inhabitants in 2021 in Lithuania (vs. 10 250 in the OECD and 5 960 in the EU) and around 72% of municipalities have more than 20 000 inhabitants (vs 33% in the OECD and 26% in the EU) (OECD-UCLG, 2022^[1]).

² There are 10 counties in Lithuania (often referred as “regions”), which are now administrative and statistical units of the country's territory with no executive power. They do not constitute a layer of subnational governments.

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2 Assessing the framework for municipal shared services provision in Lithuania

This chapter assesses the main challenges of the Lithuanian legal, fiscal and institutional frameworks for municipal shared services provision. By analysing these three relevant aspects, this chapter provides the foundation for the policy assessment and recommendations in subsequent chapters. Main findings shows that the legal framework lacks specific guidance for municipalities, as well as for municipal pilots. Tight control from the central government on municipalities, scarce examples of municipal shared services provision to draw on and lack of reliable data on municipal service costs and service usage also sharply reduce initiatives for municipal shared services provision on the institutional side. These obstacles are reinforced by the limited spending and taxing autonomy of municipalities, the use of earmarked state subsidies for municipal state-delegated functions and tight fiscal regulation. The chapter also confirms that municipal shared services provision should be implemented gradually and carefully to limit potential drawbacks.

2.1. Legal framework: the complexity of legislation and lack of guidance limit opportunities for municipal shared services provision

2.1.1. Local self-government has strong legal foundations

The 1992 Constitution of Lithuania empowers local self-government through comprehensive legal frameworks and amendments, ensuring autonomy and independence for municipal administrations. The principle of local self-government is enshrined in the 1992 Constitution, which dedicates one full chapter to local self-government (Chapter X of the Constitution “Local Self-Government and Governance”) (Constitution of the Republic of Lithuania). Article 129 establishes the right of self-government to administrative units, while article 120 provides that municipalities shall act in a free and independent manner within their competences defined by the Constitution and laws. The Constitution also specifies the general legal framework for budgets, notably the independence of municipal and central government’s budgets. The Constitution is a robust and stable legal foundation for local governments, as it has been amended only a few times since its adoption (Vaidotas, 2014^[1]). The main amendments that affected local governments were related to article 119, which extended the mandate of municipal councillors from two years to four years (1996, 2002) (Constitution of the Republic of Lithuania).

Beyond the Constitution, Lithuania’s legal landscape for local governance is further enriched by the 1994 Law on Local Self Government (LLSG), which articulates the principles of local self-government, delineates municipal competences, and defines the status of municipal councillors and municipal finances (Law on Local Self-government)¹. Furthermore, the Law on Territorial Administrative Units and their Boundaries (LTAUD), defines the boundaries of the territorial administrative units in Lithuania (Law on the Territorial Administrative Units of the Republic of Lithuania and their Boundaries), and the 1994 Law on Elections to Municipal Councils determines the procedures for election of municipal councils (Law on Elections to Municipal Councils). Other major legislations define central government and municipal budgets². By contrast to the Constitution, the LSSG has been subject to several amendments that strengthened the principles of local self-government over the last decades (Box 2.1). Lithuania has also ratified the European Charter for Local Self-Government in 1999 and the Additional Protocol to the European Charter of Local Self-Government in 2012, which commit the country to align national legislation of local self-governance with the Charter’s norms and principles, such as local self-government (Brezovnik, Hoffman and Kostrubiec, 2021^[2]).

Box 2.1. The evolution of local self-governance: unpacking the latest amendments to the LSSG

The LSSG has been amended several times over the past decades with significant changes affecting the principles of local self-governments. As per the latest version of the law (article 4), self-governance is now grounded on the following main principles: (i) representative democracy, (ii) the independence of municipal activities in accordance with the Constitution and laws, (iii) the supremacy of the municipal council over accountable executive municipal institutions, (iv) accountability of executive municipal institutions to the municipal council, (v) responsibility before the municipal community, (vi) legality of municipal activities and decisions, (vii) adjustment of municipal and central government's interests when managing municipal public affairs, (viii) adjustment of interests of the community and individual residents, (ix) participation of the residents of a municipality in the management of municipal affairs (e.g. preparing and debating draft decisions, organising surveys), (x) transparency of activities (e.g. access to drafts of municipal decisions), (xi) development and activity planning, (xii) responsiveness to the opinion of municipal residents, (xiii) respect of human rights and freedoms, (xiv) subsidiarity, and (xv) publicity.

Source: Law on Local Self-government and (Brezovnik, Hoffman and Kostrubiec, 2021^[2]).

Municipalities have also the opportunity to engage in the legislative process, either independently or via the Association of Local Authorities in Lithuania (ALAL), by contributing to the drafting of laws concerning local self-governance or municipal functions, as well as submitting proposals and providing feedback on draft legislation.

2.1.2. The legal framework lacks specific provisions for municipal shared services provision and municipal pilots

While the LLSG (article 5) in Lithuania allows municipalities to enter into contracts to perform services jointly with other municipalities and to delegate services to other municipalities, it does not guide or steer municipalities to do this, nor does it provide for specific models of organisational arrangements for shared services provision. The law only mentions three general options for shared services provision: i) a joint agreement to achieve certain common objectives; ii) a joint procurement agreement for the purchase of services from non-municipal bodies; and iii) contracting out the implementation of a specific public service from one municipality to another municipality³(Law on Local Self-government).

Specific shared services provision legislation is crucial for fostering shared services provision as it guides municipalities on shared services provision initiation procedures and forms. It also signals central government support, enhances municipal trust in shared services provision bodies, and minimises dispute risks (Council of Europe, 2010^[3]). While clear and specific rules can help municipalities to engage in collaborative arrangements, the legal framework should however remain flexible enough to allow different forms of shared services provision (e.g., contract or separate authority, single-purpose or multi-purpose, public or private law) and not be too complex, leaving municipalities the ability to organise shared services provision based on their local needs (Council of Europe, 2010^[3]).

In some EU countries, such as in Finland and the other Nordic countries, while the legal regulation establishes the basic minimum framework, much decision-making is left to municipalities. In other countries (e.g., France), the legal framework for shared services provision is very detailed, leaving less discretionary power to municipalities to co-operate (Table 2.1). By comparison with legislation in EU countries, the Lithuanian legal framework does not contain the key elements on shared services provision in the LLSG, such as: i) the authorisation of shared services provision by law, ii) the allowed legal forms of shared services provision, iii) the procedures for creating shared services provision, iv) the legal status of shared

services provision bodies, v) the organisation of shared services provision bodies, election or nomination procedures and general rules for operating, vi) rules on funding and financing, vii) the status of shared services provision staff, and ix) monitoring and evaluation (e.g., by external auditors, the central government, municipal councils, or citizens) (Council of Europe, 2010^[3]). Examples of these core elements are provided in the recommendations for different possible forms of shared municipal services provision (e.g., joint decision-making bodies, joint public posts, joint agreements on the management of official duties, joint municipal authorities).

Table 2.1. Legal frameworks on municipal shared services provision in several EU countries

	Finland	France	Netherlands	Lithuania
Has shared services provision a constitutional status?*	No	Art. 72 “[...] When the exercise of a competence requires the cooperation of several local authorities, the law may authorize one of them or one of their groupings to organize the terms of their joint action”.	No	No
Is shared services provision described in the general law on local governments (or any related legislation)?	2015 Municipal Act	1996 General Law on Local Governments (<i>Code général des collectivités territoriales</i> , CGCT)	2015 Joint Regulations Act (WGR Act)	1994 Law on Local Self-Government (LLSG)
Level of legal regulation on shared services provision	Moderately regulated; the Municipal Act provides a general framework for the different types of municipal cooperation.	Highly regulated by law; little room for manoeuvre for municipalities.	Moderately regulated; the Act provides a general framework for shared services provision but municipalities can determine their organisation and operations by agreements.	Weakly regulated; the LSSG allows shared services provision to co-operate without any specific legal provision on how to establish and operate shared service provision.
Articles dedicated to shared services provision in the law	Chapter 8 of the Municipal Act (article 49 to 64).	Article L5210-1 to L5224-1 of the CGCT.	All the WGR Act (article 1 to 141).	Article 5 of the LSSG.
Scope of shared services provision description	Forms of IMC; Joint decision-making bodies; Joint public posts; Joint municipal authorities; Agreements; Founding Charter/agreement; Executive and administrative bodies of IMC; Monitoring and audit; Withdrawal and resolution of disputes.	General rules; Organisation and functioning (incl. competences); Creation of IMC; Executive and administrative bodies of IMC; Mandates of council members; Modification of status; Financing of shared services provision (incl. tax powers); Transformation and mergers of IMC; Departmental commission of IMC; Citizenship participation; Others.	Arrangements between municipalities, provinces and water authorities, of which general rules, and organisation and composition of shared services provision bodies.	Three options of shared services provision forms.

Note: Examples in the table are provided to show different legislation on shared services provision, from low regulated and highly regulated legislation, regardless of multi-level governance of the country.

Source: OECD elaboration based on the French General Law on Local Governments, the Finnish Municipal Act, the Joint Regulations Act of the Netherlands and (The Congress of Local and Regional Authorities, 2007^[4]; OECD-UCLG, 2022^[5]).

Lithuania also lacks a conducive legal framework for trials and pilot experiments in municipal public services provision. The lack of clear legal basis for municipal trials and pilots in public policy may reduce incentives for innovation and experimentation. By contrast, in Norway, the Pilot Schemes in Public Administration Act (Annex D) provides a safe environment for municipal trials and pilots by ensuring that pilot projects have clear objectives, governance structures and oversight mechanisms, while reducing risks related to legal uncertainties.

2.1.3. The legal framework on municipal shared services provision is scattered

While the LLSG does not specifically cover rules for municipalities working together, the guidance they need is instead spread out across several different laws (Figure 2.1). This fragmentation complicates the process for municipalities seeking to engage in collaborative efforts. The laws regulating shared services provision are various and listed in Figure 2.1, depending on the type of agreement that has been concluded (e.g., shared services provision contracts, shared services provision bodies, joint municipal companies). In the cases of joint procurement agreement and contracting-out, as currently referred in article 5 of the LLSG, the main laws include the Law on Public Procurement and the Law on Competition, among others (Figure 2.1). These general laws are also complemented by sectoral laws, depending on the sectors where municipal cooperation takes place, such as the the Law on Environmental Protection, the Law on Public Transport for agreements on local public transportation, the Waste Management Act for Regional Waste Management Centres, the Law on Public Health for Public Health Bureaus, etc. This complexity of the Lithuania's legal framework may discourage municipalities to initiate co-operation.

Figure 2.1. The diverse legal bases of shared services provision in Lithuania

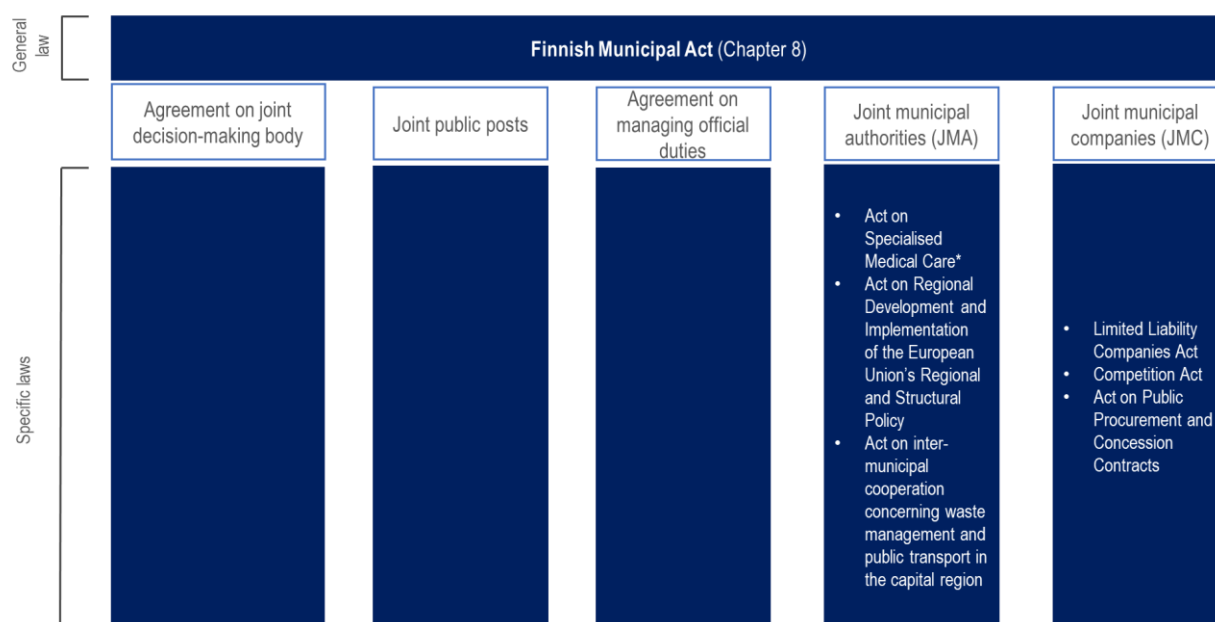
Law on Local Self-Government (article 5)		
Inter-municipal agreement	Joint procurement agreement	Contracting-out to another municipality
• Law on Public Institutions • Law on Public Administration • Law on Companies • Law on Joint Stock Companies • Law on Establishing State and Municipal Companies • Law on State/Municipal Budgeting Institutions • Law on Regional Development • Law on Management, Use and Disposal of State and Municipal Assets • Civil Code Law of Lithuania	• Law on Public Procurement • Law on Competition	• Law on Companies • Law on Public Procurement • Law on Competition • Law on Management, Use and Disposal of State and Municipal Assets • Labour Code

Note: the terminology "Law on Public Institutions" used in the report is the same as "Law on Public Entities".

Source: OECD elaboration.

In many other EU countries, such as in Finland and the other Nordic countries, a more straightforward approach for regulating shared services provision has been chosen. In such cases, the Local Government Act usually provides the main legal steering for establishing and governing shared services provision, and specific laws are only applied when absolutely necessary (the Finnish legal framework is shown in Figure 2.2).

Figure 2.2. Finnish legal base of shared services provision is straightforward



Note: *The law on specialised health care was abandoned in 2023 when the hospital services were transferred to wellbeing services counties.
Source: OECD elaboration.

2.1.4. Regulations on municipal companies have been gradually tightened

Regulations related to the establishment of municipally controlled companies have also been reinforced over the last decade. Since the amendment of the LLSG in 2017 and under the Law on Competition, municipalities can entrust the provision of public services to an existing provider or a new public services provider only if there is no other provider delivering the services with good quality and in a cost-effective manner. Prior to do so, they must obtain a permit from the national Competition Council since the provision of public services is considered as an economic activity under the Law on Competition⁴, which limits the ability of municipalities to decide the most appropriate way to organise for public services provision. Over the recent years, the central government has also gradually tightened regulations related to municipal transactions, including contracting-out provisions. In case of violation of the Law on Competition, a municipality may be required to terminate the in-house contract and select a public service provider through a competitive procedure. The municipality can also be fined (Law on Competition). Despite increased legal regulations, the largest share of municipal services remains provided by municipal companies in Lithuania.

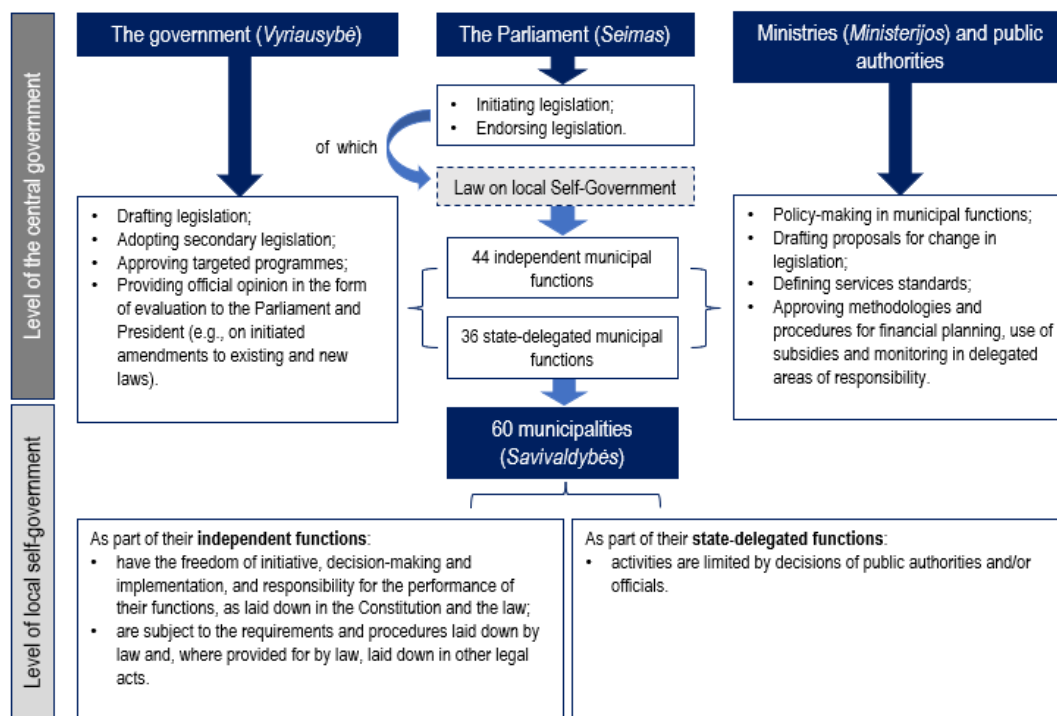
2.2. Institutional framework: limited decision-making power of municipalities and few instances of co-operation hinder municipal shared services provision

2.2.1. Tight control by the central government complicates collaboration between municipalities

Lithuania's municipalities have limited flexibility in organising services assigned to them, which makes it harder for them to engage in collaborative arrangements. Municipalities have more decision-making freedom with "independent functions". Nevertheless, the high level of details in the description of municipal independent functions (e.g., waste management) has reduced municipalities' discretion in implementation and, in some cases, generated a lack of human and financial resources to cope with the associated

bureaucratic requirements. Such interferences from the central government have limited the capacity of municipalities to perform fully and exclusively their functions (Congress of Local and Regional Authorities, 2018). For state-delegated functions, the implementation of the functions by municipalities is highly restricted by the central government. The implementation is supervised by 13 ministries and several central government's institutions, which formulate policies, establish procedures for the planning, use and reporting of state transfers to municipalities (Figure 2.3).

Figure 2.3. Institutional framework for municipal functions in Lithuania



Note: Institutions are in blue boxes; legislation in the grey box and functions in white boxes.

Source: OECD elaboration based on (The Supreme Audit Institution of Lithuania, 2019^[6])

There are currently 44 independent tasks and 36 state-delegated tasks⁵. Independent functions include, among others, the drafting and approval of municipal budget, setting and collecting local user fees and charges, the maintenance of municipal establishments, the compulsory education for children under 16 years old living within the municipality, etc. In addition, the independent functions include functions related to social services, child protection, primary healthcare, land planning, waste management, transportation, environment protection and culture. The state-delegated functions comprise civil protection, the organisation of pre-primary education, general education, vocational training and vocational counselling, the calculation and payment of most social benefits and compensations. State-delegated functions are also related to agriculture, rural development, healthcare, social care, municipal data set, etc. (Law on Local Self-government). Further details are provided in Table 2.2. The share of state-delegated functions has gradually increased, leaving less autonomy for municipalities, and less room for shared services provision (Burbulytė-Tsiskarishvili, Dvorak and Žernytė, 2018^[7]).

Table 2.2. Main independent and state-delegated municipal functions in Lithuania

Independent functions	State-delegated functions
• Approval of municipal budget	• Civil protection, emergencies and fire protection
• Decisions on local taxes, fees and charges	• Management, use and control of state land and state property assigned to municipality
• Management, use and disposal of the land and other property under municipal ownership	• Organisation of pre-school education, general education, vocational training and vocational guidance, and providing compulsory education programmes for children under 16 living in the municipality
• Control of general education for children under 16 years old	• Calculation and payments of social benefits
• Organisation of school transportation and school catering services	• Usage and control of state language
• Planning and provision of social services, establishment of social services entities	• Provision of statistical data
• Pre-school education, non-formal education for children and adults	• Participation and implementing labour market policy measures
• Social housing provisions and social housing rent	• Participation in organizing all elections (not only the local ones) and referendums
• Provisions for disabled persons' integration to society	• Provision of social care to severely disabled persons
• Primary personal and public health care, planning and implementing municipal health promotion measures	• Implementation of youth policy
• Territorial planning and supervision of construction works	• Administration of agricultural production quotas
• Planning of infrastructure and strategic and regional development	• Registration of agricultural companies and farms
• Organisation of supplies of water and wastewater treatment	• Administration of rural development measures
• Organisation of municipal waste management, landfills	• Provision of primary legal aid guaranteed by the State
• Maintenance of municipal roads and streets	• Organisation of secondary healthcare in the cases and procedures laid down by law
• Organisation of local passenger transportation	• Promoting and monitoring public health situation
• Burial services	• Residence declaration data management and records

Source: Authors' elaboration based on articles 5 and 6 of the LLSG.

Despite recent political discussions to strengthen municipal autonomy and regional policy, administrative supervision from the central government on municipalities remains high in Lithuania. The National Audit Office (*Valstybes Kontrolė*) assesses the compliance of municipalities with fiscal rules in Lithuania, while central government's officers supervise the fulfilment and compliance of municipal tasks with national decision. Furthermore, a government representative, accountable to the Prime Minister, oversees municipalities in their region to make sure they adhere to the Constitution and national decisions.

According to the Local Autonomy Index (LAI)⁶, Lithuania falls into the group of countries, including Estonia, Germany, Italy, Poland, Portugal, Slovakia, and others, where municipalities have medium autonomy. This is due to lower scores in areas like administrative supervision, financial transfer system, policy scope, and financial autonomy (Ladner et al., 2021^[8]).

2.2.2. Sectoral fragmentation of governance hinders municipal shared services provision for LTC services

Sectoral fragmentation of governance is a key challenge for shared services provision. In Lithuania, such sectoral fragmentation applies to LTC services as they encompass both healthcare and social care services. The piloting of municipal shared services provision in Tauragė+ functional zone was decided to focus on these services (Chapter 5).

Municipalities are steered and monitored by two different ministries for LTC services, the Ministry of Health (MoH) and the Ministry of Social Security and Labour (MSSL), without effective coordination nor cross-sectoral strategy between them, leading to unnecessary administrative burden and inefficiencies (OECD, 2021^[9]). Municipal functions related to healthcare and social care services are presented in Table 2.3 and the organisation of healthcare and social care services in Lithuania is depicted in Box 5.1 (chapter 5).

Table 2.3. Main municipal tasks related to healthcare and social care services

	Independent functions	State-delegated functions
Healthcare	Providing PHC. Planning and implementing health promotion and prevention measures. Monitoring compliance of sanitary and hygiene rules.	Providing public and secondary healthcare in some cases described by the law (see note). Ensuring the healthcare of legally incapable persons.
Social care	Planning and provision of social services. Social integration of the disabled persons. Providing social allowance and compensations set out in the Law of the Republic of Lithuania on Cash Social Assistance to Poor Residents.	Providing social care to severely disabled persons. Ensuring the calculation and payment of social benefits and compensations, with some exceptions.

Note: The provision of public and secondary healthcare to pupils in pre-school, general education schools and vocational training schools located within the municipal territory is a municipal state-delegated function.

Source: Author's own elaboration based on Law on Local Self-government and (OECD/European Observatory on Health Systems and Policies, 2021^[10]; OECD, 2018^[11]).

Lithuania is currently reforming healthcare and social care services. The reform focuses on better integrating these two services in order to enhance LTC efficiency and expand it to those in needs (e.g., elderly and residents with disabilities) with less waiting time for admission in hospitals. Reducing fragmentation across these two sectors will alleviate adverse impacts on municipal shared services provision for LTC.

2.2.3. There are a few instances of municipal shared services provision to draw on in Lithuania

In Lithuania, collaboration between municipalities for public service provision and infrastructure projects is fairly limited. This lack of interaction implies a deficit of guidance and accumulated experience in initiating municipal shared services provision. The sparse instances of shared services provision identified for Lithuania include inter-municipal agreements, inter-municipal bodies and joint municipal companies⁷. More detailed descriptions and examples of these forms of shared services provision are provided in Box 2.2.

Box 2.2. Different shared services provision forms in Lithuania

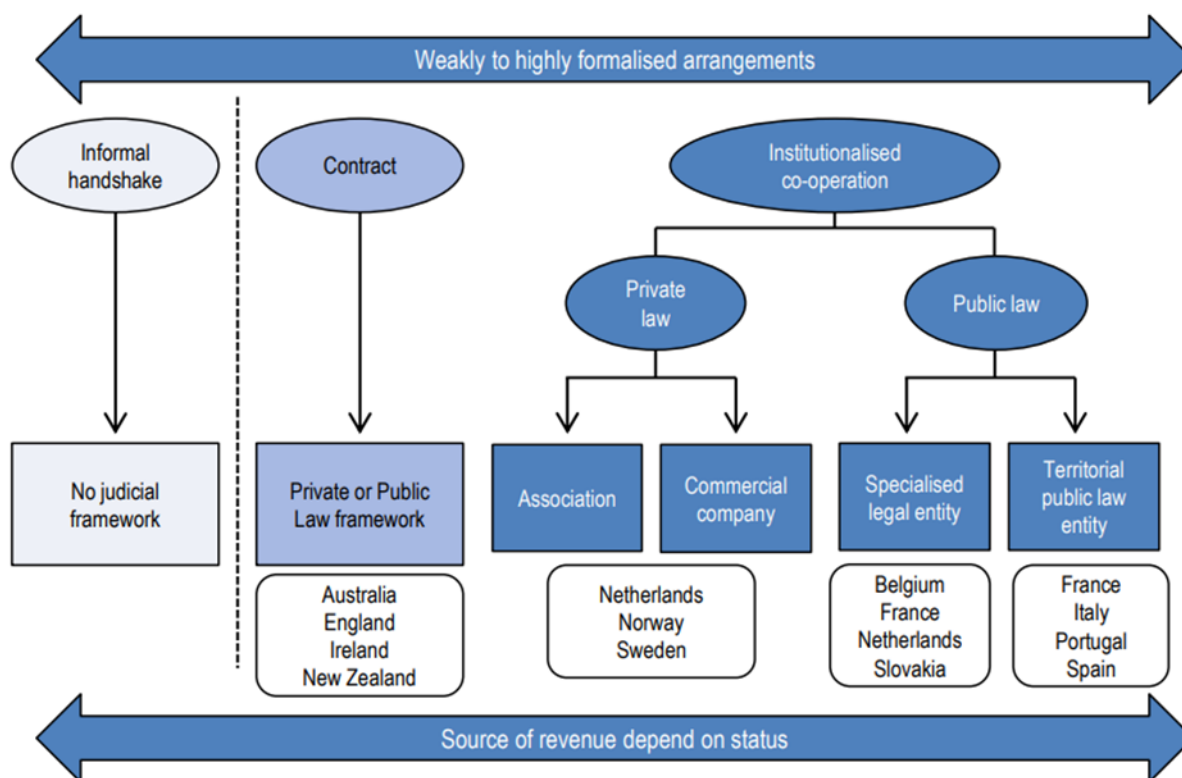
- **Inter-municipal agreements:** Urban and suburban municipalities mainly agree to provide public transportation services. For instance, the Klaipėda region's 2015-2018 regional transportation system, initiated by Klaipėda city and district municipalities, led to lower transport costs and improved customer satisfaction. However, Klaipėda city's decision-making dominance also caused dissatisfaction (Bučaitė-Vilkė, Civinskas and Lazauskienė, 2018^[12]). Another example is the establishment of Municipal Health Centre's (MHC) that will integrate several PHC services as part of the reform on the healthcare system⁸. Municipalities will have the possibility to sign co-operative agreements for specific services or to create a joint legal body to co-operate through these MHCs.
- **Inter-municipal bodies:** These bodies cover mainly the provision of public utilities or healthcare services. One example is the public health bureaus. Municipalities organised 45 Public Health Bureaus, which are responsible for health promotion and prevention, population health monitoring, and planning and implementing local public health programmes (OECD, 2018^[11]). The establishment of Municipal Health Centre (MHC) that will integrate several primary health care services as part of the reform on the healthcare system⁹ is also an example. Municipalities will have the possibility to sign co-operative agreements for specific services or to create a joint legal body to co-operate through these MHCs.
- **Joint municipal companies:** There are about 250 municipal companies operating across 40 sectors, from energy supply to waste treatment and local public transport (OECD, 2020^[13]). About 85% of companies under the supervision of municipalities are organised as private limited enterprises. While municipal companies are common in Lithuania, about three-quarters of municipal companies have only one owner or are administered by a single municipality, so joint municipal companies appear relatively rare.

Lithuania has also established 10 Regional Development Councils (RDCs), which are legal entities grounded in the Law on Regional Development (Law on Regional Development). Since the amendment of this law in 2020, RDCs have been established as supra-municipal institutions. Within their regions¹⁰, their roles are to coordinate and plan the measures to implement goals of the national regional development policy in their region (including to prepare the Regional Development Plans), to foster the socio-economic development of their region, to promote co-operation between the municipalities of their region, and to represent the region in various forums (Law on Regional Development).

The central government also established two projects that promote shared services provision on local investment (Tauragė+ and Šalčininkai+). Four municipalities participate in Tauragė+ functional zone (Chapter 5).

In comparison to other EU countries, Lithuania's repertoire of shared services provision forms is more limited. The forms primarily differ in their legal structure and organising bodies (Figure 2.4). As was discussed above, the complexity in Lithuania's legal foundation for shared services provision hinders a defined framework for collaboration, resulting in an unclear landscape of shared services provision.

Figure 2.4. Examples of different types of shared services provision and their legal basis in OECD countries



Source: (OECD, 2019^[14])

Contrastingly, the Netherlands possess five unique forms of shared services provision partnerships. These partnerships span a spectrum of engagement levels, from simpler arrangements like host municipality and joint body structures, to operational management entities and public bodies, and extending to the most comprehensive forms, as shown in Table 2.4. Finland and France, too, encompass a wide variety of clearly defined shared services provision forms. For instance, in France, the shared services provision bodies, also known as Public Establishment for Inter-communal Cooperation (EPCI), are granted taxing authority. Finland's approach is described in Chapter 3.

Enabling different types of models for shared services provision makes it easier for municipalities to engage in collaboration according to their local needs and the services to be delivered. Shared services provision can also be mandatory for certain services (e.g. regional development, regional planning in Finland) and voluntary for other services (e.g. infrastructure and public transport, education in Finland). In France, all municipalities must be part of an EPCI to cope with the high municipal fragmentation of the country (Table 2.4).

Table 2.4. Municipal size and forms of municipal shared services provision in several EU countries (2022)

	Finland	France	Netherlands	Lithuania
Number of municipalities	309	34 955	352	60
Average municipal population size	17 851	1 928	49 548	46 583
Is there mandatory shared service provision? Please specify.	Yes (regional development, regional planning, specialized healthcare)*.	Yes (all municipalities must be member of an EPCI).	If one or more municipalities request it and if necessary for a compelling public interest, a provincial executive may oblige municipalities to cooperate.	Yes (only the regional waste management and processing centres)*.
Is there voluntary shared service provision? Please specify.	Yes (e.g., primary healthcare, education, infrastructure and public transportation).	All municipalities must be part of an EPCI.	Yes (e.g., fire-fighting, ambulance services, social services).	Yes (e.g., public transportation, public health services).
Forms of shared services provision	• Joint Municipal Organisations (JMO), including the joint municipal Companies (JMC) and joint municipal authorities (JMA), • Inter-municipal contracts, • Other inter-municipal co-operation***.	IMC with own-source taxation powers (<i>EPCI à fiscalité propre</i>): • Metropolises (greater than 400 000 inhabitants), • Urban communite, • Agglomeration communities, • Communities of municipalities (mainly in rural areas).	• Core municipality, • Joint agency, • Public authority, • Operational management entity, • Arrangement.	• Inter-municipal agreements, • Inter-municipal bodies • Joint municipal companies.

Note: *Until 2023 shared services provision was mandatory also in case of specialised health care (hospitals). ** Only for organising waste processing and landfilling, but not for waste collection. *** Section 3 describes the Finnish model in detail.

Source: OECD elaboration based on the French General Law on Local Governments, the Finnish Municipal Act, the Joint Regulations Act of the Netherlands and (The Congress of Local and Regional Authorities, 2007^[4]; OECD-UCLG, 2022^[5]).

2.2.4. Improving municipal data on service costs and service usage

Municipalities in Lithuania currently lack standardised data on the costs and usage of municipal services, which are essential at various stages of shared services provision. Comprehensive data encompassing current service levels, quality, accessibility, costs, available infrastructure and human resources are crucial for conducting feasibility studies prior to engaging in shared services provision. Such information allows municipalities to identify specific needs for customised cooperation, evaluate the availability of human and financial resources, infrastructure within each municipality, and formulate cost-benefit analyses for collaborative efforts. Additionally, these data play a vital role in joint strategic planning, ensuring that shared services provision initiatives are in sync with medium to long-term goals. They are also indispensable for establishing realistic performance metrics, monitoring shared services provision progress, and making necessary adjustments.

There is a lack of data collection on services use and costs at municipal level, which is underpinned by the absence of indicators to assess the quality and accessibility of municipal services. A standard definition of the content of services and a common approach to collect data would facilitate consistency and comparison between municipalities on service provisions. There are a few initiatives to collect municipal data in some sectors, but they are not centralised in one platform. Data on social services use, for instance, are split

across different sources, the two main ones being the reporting tool in the Social Protection Information System (SPIS) and the national survey of social services. Data on the number of service users or target population are not comprehensive and up-to-date, which hinders the assessment of specific service needs and strategic planification (OECD, 2023^[15]). There is also a lack of integration between municipal data with national data systems on health and social care services, leading to a fragmented view of service costs and use.

Enhancing municipal data collection and a uniform accounting system requires modern infrastructure IT systems for collecting and storing data, as well as training and guidelines for municipal staff. Examples of standardised municipal data reporting in Finland, Norway and Sweden are provided in Box 2.3.

Box 2.3. Municipal data on services costs and use in Nordic countries

In Finland, the **Municipal Data Program (Kuntatieto-ohjelma)** aims to standardise and automate municipal financial reporting, as well as providing a comprehensive database on municipal service costs. The program comprised the establishment of standards and guidelines on data reporting, training for municipal staff on data management and the development of appropriate IT infrastructure to support efficient data collection, storage and processing. The **Aura Handbook (Aura-käsikirja)**, which is a financial reporting guide for municipalities managed by the Ministry of Finance, provides detailed instructions for automated financial reporting for municipalities. The Association of Municipalities (Kuntaliitto) had a major role in this process to incentivise high-quality reporting in municipalities, notably through voluntary comparisons between municipalities.

In Norway, **Kostra (Kommune-State-Reporting)** is a national reporting system that aims to standardise the reporting of financial and non-financial data from municipalities and counties. The Kostra reporting system is managed by Statistics Norway (SSB). Data about 95 municipal functions can be found by municipalities, from educational services and infrastructure, to culture, healthcare and social services, transport, waste and water treatments.

In Sweden, **Kolada (Kommun-och Landstingsdatabasen)** is the national database that include comparable data on demographics, finances, service costs and performance indicators at municipal and regional levels. Data are reported by municipalities and regions and managed by the Swedish Association of Local Authorities and Regions (SKR). Data comprises healthcare services, cultural activity, education and infrastructure, among others.

2.2.5. The reluctance for risk taking between municipalities does not support co-operation

Reluctance to take risk between municipalities poses a barrier to shared services provision in Lithuania¹¹. This can be attributed to several factors. For instance, in the education sector, the allocation of subsidies from central government was based on the number of students, creating an environment of rivalry rather than collaboration between municipalities. The allocation is now determined by class-basket (with minimum and maximum requirements on the number of pupils per class).

Furthermore, municipalities often turn towards prioritising policies that foster local economic growth, such as attracting investment. If this takes precedence over the promotion of affordable, high-quality public services via shared services provision, mistrust amongst municipalities may be exacerbated. This realignment of priorities creates an obstacle to effective municipal shared services provision and serves to further deepen the trust deficit (Bučaitė-Vilkė, Civinskas and Lazauskienė, 2018^[12]).

Establishing a municipal culture of co-operation is a long-term process. The establishment of shared services provision functional zones can facilitate it, such as in Tauragė+ functional zone where local officials have experience in co-operation and are willing to extend the co-operation to other public services¹². The central government should therefore create a framework that facilitates municipal experiments in this direction (e.g., an Act on Municipal Experiments that allows more flexible cross sectoral co-operation).

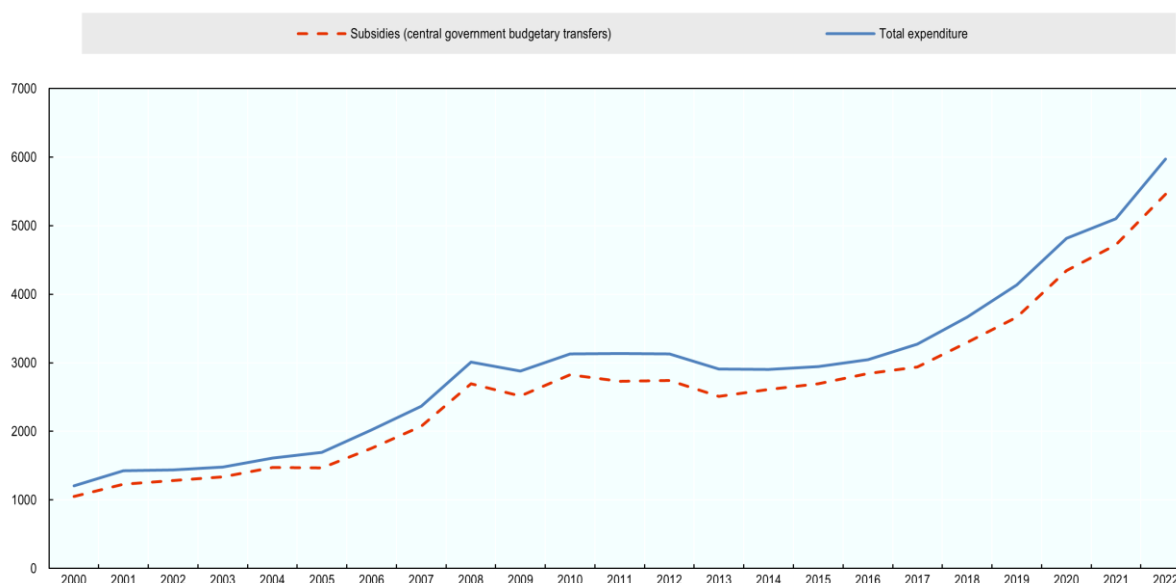
2.3. Fiscal framework: the low spending and taxing autonomy of municipalities reduces their incentive to co-operate for public services provision

2.3.1. Municipalities have a limited spending and taxing autonomy

The low degree of spending autonomy may not encourage municipalities to consider providing services together. Municipal spending responsibilities have expanded over the two last decades, but they have not been accompanied by higher revenue decision-making power. Total municipal expenditure has increased by about three times between 2000 and 2022 (Figure 2.5).

Figure 2.5. Evolution of municipal spending and central government budgetary transfers in Lithuania from 2000 to 2022

In current prices (euros, millions)



Note: Total expenditure in the blue line; subsidies (central government budgetary transfers) in the red dotted line.

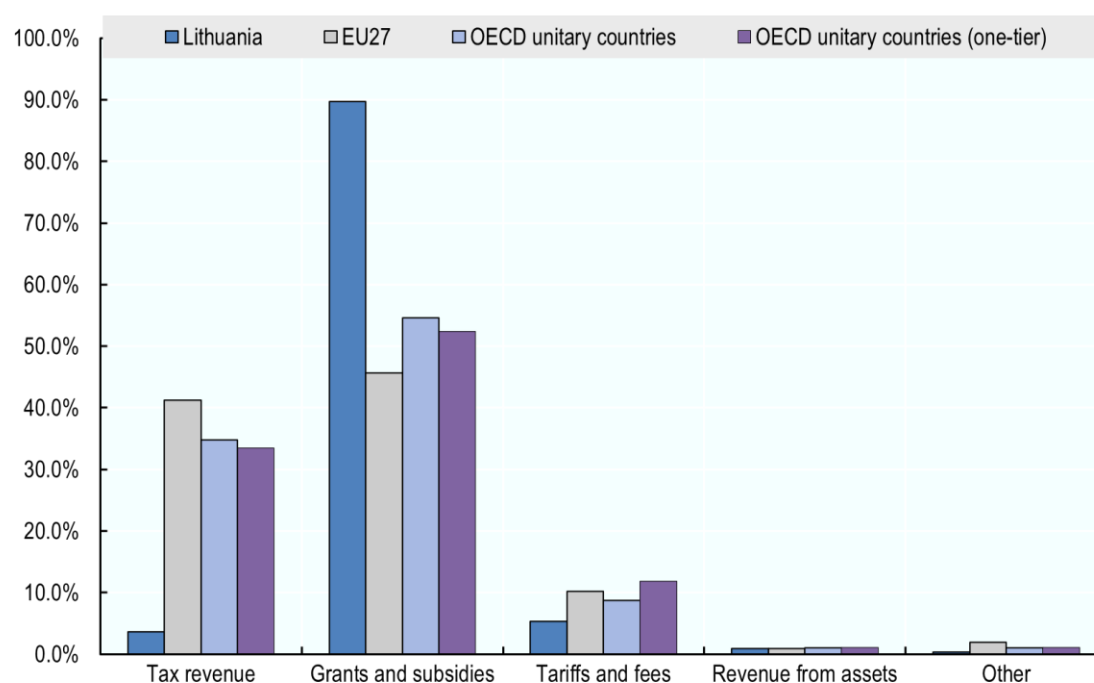
Source: OECD elaboration based on OECD national accounts (OECD Statistics).

Looking at municipal expenditure by functional classifications (COFOG), the main municipal spending items are education, followed by healthcare services and, to a lesser extent, social protection. Education represented 35.7% of municipal expenditure and healthcare services accounted for 22.2% in 2021, well above the average of OECD unitary countries with one-tier of government (28.7% and 8.4%). Municipal spending in education, healthcare and social protection has also increased since 2010 due to the enlarged responsibilities transferred in these areas¹³. Despite large service responsibilities, municipalities have low spending autonomy since about half of their expenditure is funded by earmarked subsidies for delegated

functions (central government budgetary transfers) (OECD, 2021^[9]). This low spending autonomy is corroborated in Figure 2.5, which shows the strong correlation between municipal expenditure and central government budgetary transfers.

Municipalities in Lithuania have also very low fiscal autonomy, which limits their room for manoeuvre in both organising public service provision and developing investment initiatives. Municipalities in Lithuania largely rely on central government budgetary transfers¹⁴ (89.7%), the highest in OECD countries and well above the average of OECD unitary one-tier countries (52.4%), while taxes represented only 3.6% of their revenue in 2021 (Figure 2.6) (OECD-UCLG, 2022^[5]; OECD, 2021^[9]).

Figure 2.6. Subnational revenue breakdown in Lithuania, EU27 and OECD unitary countries (2021)



Source: OECD elaboration of OECD national accounts data.

Municipal transfers comprise a general central government budgetary transfer for independent functions and earmarked subsidies for state-delegated functions. The use of earmarked subsidies reduces municipalities' discretion in the delivery of delegated functions. In addition, if municipalities do not use all earmarked transfers from the central government, they must return the excess to the central government's budget (Law on the Budget Structure). This process clearly lowers the incentive for municipalities to engage in shared services provision for cost savings purposes. In general, given the financing structure, co-operation takes place for particular investment projects or the delivery of certain services for which municipalities see an advantage for acting together, as external funding (e.g., transfers, loans) is project-based. This is the case for example for road construction or waste management services.

The general central government budgetary transfer is based on the revenue from the personal income tax (PIT), which is a central government tax but the revenue is shared between state and municipalities. In 2020, municipalities received around 47% of the PIT collected (OECD-UCLG, 2022^[5]; OECD, 2021^[9]). The revenue from the PIT is then redistributed across municipalities through a fiscal equalisation mechanism, which is based on the municipality's projected revenue from PIT per capita compared to the average projected PIT per capita of all municipalities. Municipalities below the average receive the full difference, whereas municipalities above are donors. In 2020, there were eight donor municipalities to the equalisation system (OECD-UCLG, 2022^[5]; OECD, 2021^[9]).

Municipalities' rate-setting power is limited to property taxes (i.e., commercial real estate, land), which represented only 2.9% of their revenue in 2020. They have the power to set exemptions and rates within limits set by the central government on these existing taxes (i.e., between 0.5% and 3% of the taxable value for the real estate tax and between 0.01% to 4% of the taxable value for the land tax). Municipalities also receive tariffs and fees as own-source revenue, which account for a tiny share of their revenue (5.5% in 2020) (OECD-UCLG, 2022^[16]).

2.3.2. Earmarked subsidies for state-delegated functions restrict motivation for cross-sectoral approaches

Municipalities receive sectoral earmarked subsidies for the implementation of their state-delegated functions from several different ministries. This creates administrative burden and makes it harder for municipalities to engage in shared services provision that encompasses cross-sectoral measures. In addition, as mentioned above for LTC, two ministries are responsible for transferring earmarked subsidies to municipalities (Box 5.1). Reducing the number of earmarked subsidies, which implies changing the state-delegated function system, and increasing the role of general transfers and municipal own revenues would help avoid unnecessary disincentives for shared services provision.

In Lithuania, the absence of a dedicated subsidy for joint municipality collaboration schemes means that there is a missed opportunity to incentivise shared services provision. Presently, the primary financial motivation for municipalities to collaborate stems from EU funds, which are particularly crucial for smaller municipalities. Although joining RDCs is voluntary, participation in an RDC allows municipalities to benefit from EU funding for regional development projects. Furthermore, the European Union's Integrated Territorial Investment (ITI) serves as a significant mechanism to enhance territorial development strategies and promote shared services provision, offering a strategic avenue for municipalities to work together on shared objectives. By contrast, various types of financial incentives have been introduced to promote shared services provision in many OECD countries. In France, for instance, the central government offers special grants¹⁵, which made IMC an attractive solution for municipalities with limited resources and strong competition between them. In Estonia and Norway, the government provides additional transfers for joint public investments, while in Galicia, Spain, EU regional funds are transferred in priority to investment projects that involve several municipalities (OECD, 2019^[17]). In Slovenia, half of staff costs of joint management bodies is reimbursed since 2005, which sharply increased the number of such shared services provision bodies. In Portugal, EU funds for ITI were also provided to and managed by shared services provision and metropolitan areas through Pact for Territorial Development and Cohesion¹⁶. Poland is also progressively implementing financial incentives for shared services provision by providing subsidies to municipalities of functional areas with a joint strategic plan. These incentives can help overcome political and transaction costs related to shared services provision, especially when provided from the planning phase (OECD, 2023^[18]).

2.3.3. There is no clear funding and financing model for municipal shared services provision

There is no specific model facilitating shared services provision funding and financing in Lithuania. As a general statement, shared services provision funding usually comprises central government budgetary transfers and/or municipal contributions, as defined in the funding contract between the municipalities involved. These revenues can be complemented by user charges and fees, EU funds (e.g., cohesion funds, thematic programmes) and international funds, as well as public-private partnerships (PPPs) in case of large infrastructure projects. As was discussed above, in Lithuania there is currently no central government budgetary transfer to shared services provision bodies. General and earmarked subsidies are transferred to member municipalities, which then decide how to allocate their budget between them. Shared services provision bodies do not have any taxing powers in Lithuania. Borrowing is authorised for municipal companies, within the limits set by law, since it has to be guaranteed.

Currently, there are no standardised guidelines or templates for funding contracts available for the provision of shared services among municipalities in Lithuania. Municipalities would greatly benefit from sharing best practices in this area and from enhanced support provided by consultancy services. Existing cost-sharing contracts are not easily accessible. As a good practice, these contracts should include the sharing of the initial investment costs between member municipalities, as well as the running and maintenance costs, which can be based on different cost sharing methods depending on the service. Contracts should however remain flexible to be tailored to local needs and adjusted if needed over time.

2.3.4. The design of fiscal rules does not promote shared services provision

The low borrowing autonomy of municipalities can also be an obstacle for municipalities to co-operate in large-scale infrastructure projects. A recent amendment to the constitutional law has however increased municipal capacity to borrow to implement investment projects co-financed by the EU (Ministry of Finance, 2022^[19]).

Large municipalities must respect an annual structural balanced budget rule calculated on accrual basis, while smaller municipalities follow an annual nominal balanced budget rule in cash terms. Some exceptions apply, e.g. negative output gap, participation to the lending facility of the central government that was created in 2019 (OECD, 2021^[9]). According to the Law on Financial Indicators of the State Budget and Municipal Budgets, the municipal debt ceiling is calculated on the basis of the municipality's projected budget revenue for the same fiscal year. The annual Budget Law sets an annual ceiling on municipal debt (60% in 2020)¹⁷. Municipalities are also subject to net borrowing limit as a share of municipal revenue (excluding earmarked subsidies from the central government for state-delegated functions), which varies on a yearly basis (Law on the Budget Structure). An escape clause exists to suspend fiscal rules for municipalities temporarily under exceptional circumstances (OECD-UCLG, 2022^[5]; OECD, 2021^[9]).

While municipalities are subject to various fiscal rules in many OECD countries, they often do not need approval from the central government to borrow (e.g. Finland, France, the Netherlands, Sweden). They also do not necessarily have to comply with annual borrowing limits and/or debt ceiling, as is the case for Lithuanian municipalities (Table 2.5). Moreover, municipalities are sometimes authorised to issue bonds, to finance any type of operations (e.g. Finland) or investment projects only (e.g. France). The existence of credit institutions owned by municipalities and the central government (e.g. MuniFin in Finland, Agence France Locale in France, the Municipal Bank of the Netherlands), which does not exist in Lithuania, is also an effective tool for municipalities to access external financing for large projects and to promote co-operation through the use of pooled financing mechanisms (Table 2.5).

Table 2.5. Fiscal rules and municipal financing arrangements in selected EU countries

	Finland	France	Netherlands	Lithuania
Are municipalities subject to borrowing limits and/or fiscal rules?	- Balanced budget over a four-year planning period. - Specific indicators on municipal fiscal health are used by MoF and if certain limits are breached, a fiscal examination process is started.	Yearly balanced budget rule. Golden rule.	- Multi-annual balanced budget. - Deficit limit of 0.38% of GDP for municipalities. - Municipal borrowing authorised without approval from the central government. - Golden rule.	- Balanced budget rule (structural for large municipalities, nominal for smaller municipalities). - Budget deficit up to 1.5% of forecasted revenue allowed in case of negative output gap, except for large municipalities. - The Ministry of Finance must be informed when municipalities take out loans or conduct guarantee operations. - Annual borrowing limits for municipalities set by the central government. - For municipal companies, borrowing must be guaranteed. - Golden rule. - Annual debt ceiling (60%, except 75% for Vilnius city).
Are municipalities allowed to issue bonds?	Yes.	Yes, but only for investment projects.	Yes.	No.
Is there a pooled financing mechanism?	The MuniFin (Municipality Finance Plc), owned jointly by the Finnish municipalities, central government and the public sector pension fund Keva, provides loans to Finnish municipalities and other public entities. The funding is exclusively guaranteed by the Municipal Guarantee Board.	The Agence France Local (AFL), owned by French subnational governments, aims to distribute loans to its members by raising funds in capital markets.	- The Municipal Bank of the Netherlands (BNG) is a funding agency, established by the Dutch Association of Municipalities in 1914 and owned by the central government and subnational governments (50/50), that aims to support municipalities to access credit markets. Around 90% of its assets are loans to municipalities and other public bodies. - The Waterschapsbank is another Dutch bank specialised in loans to local governments.	No.

Note: The 'Golden Rule' means that long-term borrowing is restricted to investment.

Source: OECD elaboration based on (OECD-UCLG, 2022^[6]; OECD-UCLG, 2022^[16]).

2.4. Municipal shared services provision offers opportunities for services with impacts beyond municipal borders but has also several drawbacks

While Lithuanian municipalities face challenges to cooperate, they can greatly improve public service quality and accessibility through municipal shared services provision depending on services scale. We examine municipal responsibilities and research on economies of scale in public services to identify areas where shared provision could best enhance services delivery and efficiency in Lithuanian municipalities. We provide first a theoretical analysis on the topic, supported by experiences in EU countries, then applied

to the Lithuanian context. We also explore potential drawbacks for municipal shared services provision at the end of the session.

2.4.1. Services with impacts beyond municipal borders would benefit the most from shared municipal services provision

The Table 2.6 lists a selection of public tasks linked with their optimal benefit area (national, regional, local). While services with mostly local effects, such as local infrastructure, sewage, local land use, housing, and basic education, are usually considered best suited for subnational government provision, municipalities are nevertheless often assigned tasks that have impacts beyond the municipal borders (OECD, 2019^[14]). In such cases, shared services provision can provide a viable alternative to single municipality provision and production.¹⁸

Central governments have a key role in policy design and oversight to ensure equity. Therefore, central governments tend to retain responsibility for designing and planning the policy, setting the standards, and carrying out the oversight (the first column of Table 2.6). In case of services with mostly local or regional benefits, the lead responsibility of regions and local governments is justified (second column of Table 2.6), such as local and regional land use planning, water and sewage, solid waste, fire protection and police. Bodies providing shared services at regional scale should be responsible for services with region-wide benefits, such as regional economic development or transportation (OECD, 2019^[14]).

Table 2.6. Assigning spending responsibilities across levels government

	Policy, standards, oversight	Provision, administration	Production, distribution	Comments
Local land use planning, building permits	N, R, L	L	L	Mainly local benefits
Regional land use planning	N, R, L	R	R	Externalities, mainly regional benefits
Water and sewers	N, R, L	L	L, P	Mainly local benefits
Solid waste	N, R, L	L	L, P	Mainly local benefits
Fire protection	N, R, L	R, L	R, L	Mainly regional or local benefits
Police	N, R, L	R, L	R, L	Mainly regional or local benefits
Parks, recreation	N, R, L	R, L	R, L, P	Benefits vary in scope
Public transport	N, R, L	R, L	R, L, P	Externalities vary in scope
Economic development	N, R, L	R, L	R, L	Externalities vary in scope
Roads	N, R, L	N, R, L	R, L, P	Benefits vary in scope
Natural resources	N, R, L	N, R	N, R, L, P	Benefits vary in scope
Environment	N, R, L	N, R, L	N, R, L, P	Externalities vary in scope
Education	N, R, L	N, R, L	R, L, P	Externalities, transfers in kind
Health	N, R, L	N, R, L	R, L, P	Externalities, transfers in kind
Social welfare	N, R, L	N, R, L	R, L, P	Redistribution

Note: N = National, R = Regional, L = Local, P = Private or non-governmental.

Source: Author's modification and extension of the material presented in (Bahl and Bird, 2018^[20]).

In EU countries, healthcare, social services and public transport, are also sectors for which shared services provision is most frequently used (Table 2.7). Based on local context and priorities, some countries also developed shared services provision in specific areas, such as primary education in Luxembourg, psychological support and dental care services in Denmark, strategic planning in the United Kingdom, rescue services in Sweden or tourism promotion in Spain (Table 2.7).

Table 2.7. Common and specific areas of shared services provision in EU countries

	Areas in which shared services provision is most frequently used	Specific areas in which some countries have used shared services provision
General public services	n/a	• Electoral roll (UK), • Civil-status register, • Management of European Union structural funds available to municipalities (Estonia, Slovak Republic).
Public order and safety	• Fire fighting, fire brigades.	• Rescue services (Sweden).
Economic affairs and public transport	• Economic and territorial development, • Supply of machines and materials, • Public transport, • Road maintenance, • Town and country planning.	• Strategic planning (UK), • Use of “shared” bridges (UK), • Studies on local development.
Environmental protection	• Environmental management and protection, • Drinking water supply, • Waste water treatment, • Sewage treatment, • Waste collection and management, including building and operating waste management facilities.	• Agricultural irrigation projects (Türkiye).
Housing and community amenities	• Public amenities, • Management of abattoirs and municipal markets.	n/a
Health	• Healthcare services.	• Psychological support and dental care services (Denmark).
Recreation, culture and religion	• Leisure and tourism.	• Libraries (Malta), • Tourism promotion (Spain).
Education	• School facilities.	• Primary education (Luxembourg).
Social protection	• Welfare support.	n/a

Source: OECD elaboration based on (The Congress of Local and Regional Authorities, 2007^[4]).

2.4.2. The type of shared services provision arrangement depends on the nature of the services

The effectiveness of shared services provision arrangements also hinges on the nature of the services involved. For addressing straightforward local concerns, contractual agreements often suffice. As illustrated in Table 2.8, entities governed by private law, such as associations of municipalities or NGOs, are well-suited for managing non-bureaucratic services like cultural events and kindergartens, as seen in Chile. Conversely, municipal companies are more fitting for certain revenue-generating commercial

activities – like water and sewage management, public transport, waste management, and heating plants – where they can leverage user fees as a source of income. The establishment of a single or multi-purpose public law authority represents the most formalised version of shared services provision, allowing municipalities to delegate competences – either optional or mandatory as defined by law – for comprehensive territorial collaboration.

Table 2.8. Shared services provision institutional models by competences, status, financing, human resources, and control in EU countries

Institutional models	Competences	Status/organs	Finances/human resources	Control	Examples in OECD countries
Contract	Suitable for simple public services.	Ordinary rules for local government contracts.	Budget of contracting municipalities. No specific employees.	Through municipalities' procedures.	Australia, Ireland, New Zealand, United Kingdom (shared service agreements).
Private law body (NGO)	Wide range of possibilities (cultural events, hostel for elderly, kindergartens, etc). Appropriate for non-bureaucratic activities	In accordance with law.	Contributions from municipalities; subsidies from other public budgets. Employees have ordinary labour law contract.	By the private body, subject to the municipalities; control of central government's authorities on municipal decisions.	Austria (<i>Gemeindeverbände</i>), Chile, Czech Republic (voluntary municipal association), Germany (<i>Gemeindeverband and Zweckverbände</i>).
Private law body (municipal company)	Appropriate for specific commercial activities that generate own contractual revenue (e.g., prices, fees), such as water and sewage, public transport, waste, collective heating plants, etc.	In accordance with law: - Municipalities directly associated with the capitalisation and management of the business, - Several municipalities contract with same business for same task(s).	Revenue from prices or fees; commercial accounting. Employees have ordinary labour law contract.	Legal control on the firm, as in commercial law; control by the owners (municipalities).	Belgium (<i>intercommunales</i>), Croatia, Finland and other Nordic countries (joint municipal companies).
Public law body (single or multi-purpose)	Transfer of any competence by the municipalities: voluntary or compulsory municipal services.	Status of public legal entity. IMC council or board nominated by member municipalities.	Depends on nature of public service: fees, municipal contributions, central government's transfers. Employees with public or private status depending on nature of service.	Certain control by the municipalities who elect representatives to the shared services provision council. General control by central government's authorities: legal and financial.	Finland and other Nordic countries (joint municipal authorities), Italy, Portugal (<i>comunidades intermunicipais</i>)
Public law body (integrated territorial co-operation)	Transfer of any competence by the municipalities, including major competences:	Public legal entity. Council elected by municipal assemblies. Executive elected	Own-source revenue: tax revenue, fees, transfers from the central government.	Certain control by the municipalities who elect representatives to the shared	France (EPCI à fiscalité propre).

	voluntary or compulsory municipal services.	by the shared services provision Council.		services provision council. General control by central government authorities: legal and financial.	
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Source: (Council of Europe, United Nations Development Programme and Local Government Initiative, 2010^[21]; OECD-UCLG, 2022^[16]).

2.4.3. Healthcare, social services and public transportation would benefit best from shared service provision in Lithuania

In Lithuania, municipalities are assigned independent functions with wider impacts than the boundaries of municipal areas, such as school transportation, provision of social services, non-formal education for children and adults, primary healthcare and public healthcare, health promotion measures, planning of infrastructure, implementation of regional development, organisation of municipal waste management, water and wastewater management, organisation of local passenger transportation (Table 2.2), which would benefit from shared services provision for municipalities to optimise cost allocation and mutualise resources.

The pilot experiment in the Tauragė+ functional zone therefore focuses on healthcare and LTC services, previously on public transportation, which would benefit the most from shared service provision. The pilot will provide relevant information for expanding shared services provision in other areas of the country depending on local contexts. The types of share services provision that would suit best (e.g., joint decision-making bodies, joint public posts, joint agreements on the management of official duties, joint municipal authorities) are discussed in the recommendations and in Chapter 6 of the report for the pilot in Tauragė+ functional zone.

2.4.4. Municipal shared services provision should be implemented gradually and carefully to limit potential drawbacks

Despite several advantages, shared services provision can also have several drawbacks, which requires careful and gradual implementation. The main disadvantage is that it adds an extra hierarchy layer, which may increase administration and monitoring costs. Shared service provision can also result in democratic deficit, as municipal shared services provision bodies are usually governed by representatives who are nominated by the member municipalities. This may reduce the accountability and transparency of local decision-making, compared with directly elected councils. This challenge can be partially addressed by appointing elected persons to the co-operation authorities (OECD, 2022^[22]).

Another challenge is that member municipalities engaging in shared services provision inevitably have less power to affect the services than if the service was provided by their own municipality. Depending on the size of the common pool, monitoring shared services provision by member municipalities may be lower if common pool creates a disincentive to do so (Allers and van Ommeren, 2016^[23]).

There is currently not much research evidence on the effects of voluntary shared services provision on municipal spending or service quality (the evidence of causal relationship is scarce or non-existent). Moreover, the results of existing studies are mixed (Allers and van Ommeren, 2016^[23]). In France, a recent study found no effect of cooperation on the total spending of French municipalities (Frère, Leprince and Paty, 2013^[24]). By contrast, in Spain, IMC enabled economies of scale, especially in the smallest municipalities, leading to lower costs for waste collection service. Co-operation also raised the collection frequency and improved the quality of the service in small towns (Bel and Mur, 2009^[25]). In the Netherlands, inter-municipal associations paid higher interest rates for their loans compared with independent

municipalities (Allers and van Ommeren, 2016^[23]), suggesting that co-operative arrangements were considered inefficient, and therefore more risky, by creditors.

These different drawbacks illustrate that reforming the provision of services to foster municipal cooperation requires a gradual and place-based implementation to ensure balanced and equitable powers between members municipalities, effective resource and cost allocation across them, supported by a progressive change of culture from distrust to cooperation, for shared services provision to be fully effective.

2.5. Assessment

2.5.1. Introduction

Lithuania has faced significant demographic challenges since 2000, including aging, population decline, and external and internal migration, which have impacted public service delivery and created territorial disparities. The nation has experienced a 20% decrease in population, with urban areas like Vilnius witnessing growth, in contrast to the significant losses in rural regions. These changes have strained healthcare and LTC services, increasing demand amidst an aging population. Despite the high number of healthcare professionals, access inequalities persist, particularly in rural areas, where LTC often relies on informal caregivers.

In response, Lithuania is planning strategic reforms to enhance public services, with a focus on better enabling municipal shared services. This initiative aims to address disparities, improve access to services and enhance public service quality. Yet, the efforts face considerable obstacles, including limited municipal autonomy, a scattered and unclear legal framework, alongside financial and institutional constraints. The report's key findings of the Lithuanian framework are summarised in below, underlining the need for comprehensive reform to enable effective IMC.

2.5.2. Key findings

Legal framework

Underutilised potential of Law on Local Self-Government (LLSG) in guiding and regulating IMC

While the Law on Local Self-Government (LLSG) mentions three forms of shared municipal service provision, these categories are broadly defined, leading to uncertainty about the specifics of implementing municipal collaboration, particularly the practicalities of establishing collaborative agreements for shared objectives. This is in sharp contrast with practices in several other countries where similar laws to LLSG contain the bulk of the regulation concerning the establishment, management and governance of shared municipal service provision.

Insufficient legal framework for municipal pilots

Lithuania lacks a supportive legal framework for conducting trials and pilot projects within municipal public services. International examples show that a clear legal framework encourages innovation by providing a safe space for experimentation, minimising risks associated with legal uncertainties or liabilities. A well-defined legal framework ensures that pilot projects have clear objectives, governance structures, and oversight mechanisms.

Complex legal framework does not incentivise shared services provision

The legal framework for shared services provision in Lithuania is scattered across various laws, and lacks clear guidance for establishing collaboration. While some regulation already exists, the complexity of the framework can severely discourage municipalities from initiating cooperation. Comparatively, other EU countries have simpler, more direct regulations.

Institutional framework

Tight control from the central government reduces initiatives for municipal shared services provision

Municipalities' decision-making power is heavily constrained by central government oversight, which disincentivises voluntary municipal collaboration. While municipalities have some independence in managing their functions, they encounter significant restrictions with state-delegated tasks due to tight control from central entities. This oversight results in reduced autonomy for municipalities, complicating shared services provision efforts by emphasising compliance with national policies over local collaborative initiatives.

Sectoral fragmentation of governance diminishes opportunities for effective shared services provision for LTC services

To improve shared services provision in healthcare and LTC services in Lithuania, it's vital to address the issue of sectoral fragmentation. Currently, healthcare and social care services are managed by different ministries without effective coordination, leading to legal fragmentation and administrative inefficiencies. While Lithuania is currently working on reforms to integrate health and social services and to enhance LTC efficiency, municipalities are nevertheless restricted by the sectoral approach, having adverse impacts on shared services provision across sectors.

Few instances of municipal shared services provision to draw on

Collaboration between municipalities for public services provision and infrastructure projects is fairly limited in Lithuania, leading to a lack of guidance and accumulated experience to capitalise on for municipal shared services provision. The sparse instances of shared services provision identified for Lithuania include inter-municipal agreements, inter-municipal bodies and joint municipal companies.

Lack of reliable data on municipal service costs and service usage form an important limitation for establishing shared services provision

Lithuania's municipalities lack standardised data on service costs and usage, crucial for effective shared services provision. The absence of harmonised data collection and analysis systems complicates comparisons and strategic planning for shared services. Data on social services are scattered, hindering the assessment of needs.

Lack of trust between municipalities restricts co-operation

The trust deficit among Lithuanian municipalities hinders shared services provision, fostered by differing local priorities. Economic growth policies often override shared services provision efforts, exacerbating mistrust.

Fiscal framework

Limited spending and taxing autonomy restricts municipalities' ability and desire to pursue shared services provision

Despite a tripling in municipal expenditure from 2000 to 2021, driven by increased responsibilities especially in education, healthcare, and social protection, revenue decision-making has not similarly increased. A significant portion of municipal spending is funded by grants from central government (general grant and state subsidies for delegated functions), limiting financial independence. This situation is intensified by insufficient central government funding for state-delegated functions, constraining municipalities' own resources. Additionally, the limited municipal borrowing rights hinder service provision and investment initiatives through shared municipal service provision. These aspects have been discussed in detail in another OECD report (OECD, 2021^[26]). It should be noted that many other countries have established municipally owned financial agencies which specialise in municipal lending (e.g. MuniFin in Finland, KommuneKredit in Denmark), in order to ease municipal borrowing for important infrastructure projects. In these countries, both single municipalities and joint municipal bodies can borrow from these institutions.

Use of earmarked state subsidies for delegated functions reduces motivation for cross-sectoral approaches

Earmarked state subsidies for delegated functions restrict municipalities' discretion, and unused funds must be returned, discouraging cost-saving shared services provision initiatives. This lack of flexibility restricts municipalities from reallocating funds to address emerging local needs or priorities. When municipalities collaborate, they often pool resources and jointly address common challenges. However, if earmarked state subsidies for delegated functions must be returned, municipalities may hesitate to engage in shared services provision due to the risk of losing funds they couldn't fully utilise.

Tight fiscal regulation and lack of innovative funding limit shared services provision

In Lithuania, the sectoral approach for regulation and funding from different ministries creates administrative challenges for municipalities, hindering effective shared services provision across sectors. Lithuania does not use specific central government grants for joint municipal initiatives, missing opportunities to foster shared municipal service provision. Various OECD countries offer financial incentives to encourage shared services provision, showing diverse approaches to support municipal collaboration financially, highlighting the potential benefits of a more streamlined and incentivised funding model for promoting shared services provision in Lithuania.

The design of fiscal rules does not promote shared services provision

The fiscal rules in Lithuania limit municipalities' borrowing autonomy, hindering their ability to collaborate on large infrastructure projects due to constraints on borrowing and required own-finance contributions. The annual structural balanced budget rule for large municipalities and a nominal balanced budget rule for smaller ones, along with a debt ceiling and borrowing limits, restrict financial flexibility. While some OECD countries offer more autonomy for municipal borrowing and investment, Lithuanian municipalities face stricter controls, impacting their capacity for shared services provision and large-scale project financing.

Notes

¹ There are 10 counties in Lithuania, which are now administrative and statistical units of the country's territory with no executive power. They do not constitute a level of subnational governments.

² Major legislations on central government and municipal budgets are the 1990 Law on the Budget Structure, the 1997 Law on Methodology of Determination of Municipal Budget Revenue, which defines the source of municipal revenue, and the Law on Approval of the Financial Indicators of the State Budget and Municipal Budgets, which must be approved each year by the Parliament (Seimas) and determines central government's transfers to municipalities, financial indicators that municipalities must follow in their budget preparation, municipal debt and net borrowing limits.

³ In case iii), the responsibility for the implementation of the functions remains under the municipality that contracts out the function.

⁴ The permit is required under certain cases that are specified by the LLSG.

⁵ The Lithuanian Ministry of Interior has developed a methodology that will be used to review municipal functions and to help reassign functions to the most appropriate governance level which could then lead in spending reallocations.

⁶ The LAI attempts to measure the degree of subnational government autonomy beyond fiscal indicators. It includes 57 countries, of which 36 are OECD countries and 27 are EU member states, and spans from 1990 to 2020. The LAI attributes a score of local autonomy based on seven dimensions (i.e. legal autonomy, organisational autonomy, policy scope, effective political discretion, financial autonomy, non-interference and access).

⁷ The report's description in previous pages refers to the forms described in the LSSG: (i) inter-municipal agreement, (ii) joint procurement agreement and (iii) contracting-out to another municipality. The different terminologies used here reflect practical examples of shared municipal services in Lithuania: (i) inter-municipal agreement, (ii) inter-municipal body, and (iii) joint municipal entity.

⁸ This is part of the recent reform on the healthcare system, launched in 2021 by the Ministry of Health, together with the national "Development Program for Improving the Quality and Efficiency of Health Care for 2022 to 2030" (Lithuanian Ministry of Health, 2022^[28]). Five regional functional healthcare regions will be also developed for the secondary healthcare services.

⁹ This is part of the recent reform on the healthcare system, launched in 2021 by the Ministry of Health, together with the national "Development Program for Improving the Quality and Efficiency of Health Care for 2022 to 2030" (Lithuanian Ministry of Health, 2022^[28]). Five regional functional healthcare regions will be also developed for the secondary healthcare services.

¹⁰ There are 10 counties in Lithuania, which are now administrative and statistical units of the country's territory with no executive power. They do not constitute a level of subnational governments.

¹¹ The main challenges identified for IMC by municipalities during mission discussions in Tauragė district were the lack of legal basis, competition between municipalities and the fear to make mistakes.

¹² In Lithuania, 10 functional zone strategies have been adopted at end-August 2024 and one additional functional zone strategy shall be approved in September 2024. The model of functional areas has evolved based on the pilot approach to a formally regulated one. The framework is a description of the procedure for preparing and monitoring the implementation of sustainable urban development strategies and functional zone strategies. It is approved by order of the Minister of the Interior.

¹³ Pre-school and kinder-garden, educational support, and informal education for child and adults are independent functions of municipalities, while general education is a state-delegated function.

¹⁴ Since 2014, and the implementation of the SNA 2008 accountability system, personal income tax (PIT) proceeds redistributed by the central government to subnational governments are no longer considered to be tax revenue in the form of a shared tax but rather considered as transfers determined by a per-capita system and for fiscal equalisation purpose (OECD-UCLG, 2022^[5]; OECD, 2021^[9])

¹⁵ The grants for IMC bodies (EPCIs) in France and their allocation are described in articles L. 5211-28 to L. 5211-33 of the General Code of Local Self-Government (CGCT). The EPCIs receive a general grant (*dotation globale de fonctionnement des EPCI*), which comprises an inter-municipal grant and a compensation grant.

¹⁶ Eligible areas for ITI tools can be areas exceeding traditional administrative border of a municipality (e.g., urban neighbourhoods, urban and metropolitan areas, urban-rural and functional urban areas) (Council of European Municipalities and Regions, 2022^[27]).

¹⁷ Vilnius has a higher ceiling (75%).

¹⁸ For example, in Finnish legislation, the production and provision of municipal services are differentiated from each other. All municipalities are legally obliged to provide certain basic services for their residents. The municipality can produce the services itself, through shared services provision or purchase them from private service providers or from other municipalities. For example, municipalities have an obligation to organize basic education. They can produce the education itself in its own school or buy education from a private schools or other municipalities. In this case, municipalities are still responsible for organizing education for their residents, even though they do not produce the service itself.

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3

Inter-municipal co-operation: The Finnish way

Inter-municipal cooperation has been a common method for organising municipal public services in Finland, especially in the case of the smallest and economically weakest municipalities. The voluntary cooperation spans various services, including basic health care, education, infrastructure, and public transport. While most inter-municipal cooperation is voluntary, it is mandatory in regional development and regional land use planning, where municipalities are required to form joint authorities known as "regional councils". Since 2022 the management of health and social services was transferred from municipalities to newly established wellbeing service counties. In Finland, the implementation of municipal collaboration has been facilitated and supported by a robust legal, fiscal, and institutional framework. This section will discuss these aspects in detail.

3.1. Inter-municipal cooperation in Finland: A spectrum of approaches

Until 2023, Finland's two-tier public governance model consisted of the central government and municipalities. The central government set national policies and legislative frameworks, while municipalities delivered most public services. However, the 2023 wellbeing services county reform shifted responsibility for health, social services, and rescue operations from municipalities to 21 wellbeing services counties, with Helsinki as an exception since it retains its own social, health, rescue, and fire services and is not part of any county. Despite these changes, municipalities continue to manage crucial services including education, public utilities, and transportation.

Finland's municipal governance system, first established in the 1860s and 1870s, secured the right to levy taxes and was later recognised for its constitutional local self-governance in 1919. Legal provisions for inter-municipal cooperation were included into municipal legislation in 1932. By the 1950s, the Finnish governments began delegating statutory responsibilities to municipalities, including the management of hospitals and schools. This expansion of duties continued over the following decades until these days, with municipalities assuming significant roles in education, utilities, public transport, and social and health services, among others.

Due to the small population size of many municipalities and the demanding tasks assigned to them, inter-municipal cooperation has played a crucial role in the delivery of public services in Finland. National policies have actively encouraged voluntary collaboration among municipalities. Notably, the 2005 PARAS reform mandated that health service providers cover at least 20,000 residents, leading to the establishment of 67 new cooperative areas for more efficient service delivery. While the exact number of all municipal collaborative arrangements is not known, there are currently about 100 joint municipal authorities, about 250 joint municipal companies and several hundred contract based collaborative arrangements.

This section provides an overview of the structures, financial mechanisms, contractual arrangements, and oversight practices involved in shared services provision in Finland. It aims to shed light on both the effective and the less effective policies and practices encountered.

3.1.1. Joint municipal organisations (JMOs) are independent entities for collaborative service delivery

In Finland, the primary structures for JMOs include joint municipal authorities and joint municipal companies. This section explores the various forms of JMOs in detail.

Joint municipal authorities (JMA): The cornerstone of inter-municipal cooperation in Finland

The most important organisational form of municipal cooperation in Finland is the joint municipal authority (JMA). Two or more local authorities can set up this kind of municipal authority to perform specific tasks. JMAs are public law bodies which means that they are independent legal entities with their own capacities and internal governance bodies. While municipalities are multi-purpose democratic institutions, JMAs don't have similar general competence since their sphere of authority is limited. JMAs may own properties, sign contracts and contract debts without an authorisation from their owners. However, their member municipalities have the final responsibility of the financial and other commitments of their JMAs. Table 3.1 summarises the main forms of Finnish JMOs.

Table 3.1. A comparative review of the organisational forms of JMO in Finland

	Joint municipal authority (JMAs)	Joint municipal companies (JMCs)	Other organisations
Characterisation	Highly formal and separate juristic body owned by collaborative member municipalities.	Limited liability company, which is a juristic body owned by municipalities as shareholders	Special cases
Legal status	Public law body regulated by the Municipal Act. Some are statutory while others are voluntary shared services provision organizations	Private law body regulated by the company law	Foundations, associations, etc.
Typical services	Hospitals, regional planning & development, care of handicapped operated by statutory JMAs. Vocational education, sub-regional development, and social and basic health care JMAs are examples of voluntary JMAs.	Rental housing, energy companies, waste management, polytechnics, waterworks, administrative back office services (ICT, payroll, bookkeeping, etc.)	Housing services, property management, lobbying activities, etc.
Recent trend / prevalence	Steady and clear decline. Hospital, social and health care JMAs will be terminated at the end of 2022.	An increasingly popular form of collaboration.	Stable
Economic volumes	Very remarkable until the end of 2022.	Remarkable	Small
Method of creation	Either via compulsory legislation or consistent decisions by municipalities	Agreed share subscription and an article of association by municipalities	According to special laws
Possibilities of withdrawals (exits)	Municipalities can resign only from voluntary joint authorities. Municipalities can change their membership in statutory authorities if permitted by the central government	Municipalities can sell their shares, or they can jointly agree to dissolve their JMC	Depending on a case
Access of private parties	No access	Yes, but rare in practice	Usually yes
Key financial risks	Municipalities are responsible for all debts and liabilities of joint municipal authorities	Total risks are limited by invested capital unless a municipality has done extra commitments on voluntary basis	Total risks are limited by invested capital unless a municipality has made extra commitments on a voluntary basis
Typical geographical sphere	Region wide and sub-regional	Region wide	Nation-wide, regional or sub-regional

Source: OECD

The Municipal Act outlines the legal framework for the establishment, organisation, governance, and auditing of Joint Municipal Authorities (JMAs). While it sets the overarching principles, the Act allows municipalities the flexibility to manage the specific administrative details.

Municipalities are the owners of JMAs and their only legitimate member organisations. To establish a new JMA, municipalities must make uniform decisions. The councils of the member municipalities nominate their representative(s) to the highest decision-making body of a JMA depending on how many seats each municipality has been allocated. The share of the representatives is resolved in a founding charter of a JMA agreed by member municipalities. Typically, the more residents live in a local government, the more the municipality has its own representatives. Each representative may have one vote or voting rights may vary depending on how they are agreed on the basic contract. The chapter 8 of the Municipal Act defines three alternative governance models of a JMA as illustrated in Table 3.2.

Table 3.2. Alternative governance models of JMAs.

	Council model	Decision model	Single body model
Highest body	Council	Meeting	Usually a board. Decision-making powers are shared between member municipalities and the board.
Second highest body	Board	Meeting	-
Regulation	Municipal Act	Basic agreement of a JMA	Basic agreement of a JMA

Source: OECD.

The Municipal Act provides some flexibility to fine-tune the administrative terms of JMAs. First, the number of member municipalities of a JMA is not limited by the Municipal Act. Second, the membership is not necessarily a permanent arrangement since a member municipality may also be able to withdraw from JMAs. Third, instead of being a full member, a municipality can collaborate through a partial membership of a JMA. This makes it possible to select membership functions and responsibilities which a partial member prefers upon condition that other members of the JMA agree. Fourth, a JMA can also be established as an enterprise JMA which is a public law form not following the governance principles of JMCs. Since many municipal councilors and officers have experienced the ordinary JMAs somewhat sluggish having a bureaucratic reputation, the lawmakers have developed a slightly more streamlined version from the original form. The enterprise JMA is designed for business purposes suitable in the services such as facility management and water and sewage. It may be run by a single governance body (see Table 3.2) and the composition of this body does not have to be adjusted to correspond to the proportion of party and group votes in the local elections of its member municipalities.

Box 3.1. Establishment of JMA to boost vitality and competitiveness in Turku Region

Municipalities of the Turku region (Kaarina, Lieto, Naantali, Raisio, Rusko ja Turku) established a JMA (Turun kaupunkiseudun kuntayhtymä) in 2022. The newly established JMA aims to increase the vitality and competitiveness of the region. The main duties include shared planning and development projects and joint lobbying activities. The governance is based on the single body model: the board (seutuhallitus) supervises the interests of the JMA, represents the JMA, and makes contracts on JMA's behalf. The JMA has an inspection committee and external auditor nominated by its member municipalities.

Source: OECD

Joint municipal companies (JMC): Balancing public purpose and market competition

When two or more municipalities or JMAs own or control a company, it is called a Joint Municipal Company (JMC)¹. Though these companies are usually set up to make a profit, they can also choose other goals like a not-for-profit model. Private companies can also partner with JMCs by owning a part of the joint company. Joint municipal companies are particularly common in Finland in housing, energy, water and sewerage, education, support services for administration, and in waste management.

If municipalities want to engage in business activities within a competitive market, they need to create a separate legal entity known as a special purpose vehicle. This cannot be a public law body, so it's often established as a limited company, cooperative, association, or foundation, with the limited company model being the most preferred. This setup helps to ensure a level playing field between JMCs, other Joint Municipal Organisations (JMOs), and private companies, as required by EU state aid laws (Harjula and Prättälä, 2019^[1]).

The usage of JMCs has witnessed a significant surge (52%) from 2016 to 2021, gradually outnumbering and replacing the JMAs. The new EU regulations, coupled with the Local Government Act of 2015, have mandated that municipal services, with a few exceptions, that compete with private entities must be either outsourced or corporatised. This trend is largely fueled by the agility and simplicity of decision-making processes within JMCs compared to the relatively complex and slow procedures within JMAs. However, a noteworthy downside to this increasing adoption of JMCs has been a decrease in transparency and political oversight of public decision-making.

Box 3.2. Aiming to maximise efficiency: JMC in waste management

Joint municipal waste management company with a PPP dimension

The Tampere Regional Solid Waste Management Ltd (<https://pjhoy.fi/en/>) is a joint municipal company that was established in 1994 and is owned by 17 municipalities. Its primary responsibility is managing waste services mandated by law on behalf of residents, housing companies, and municipalities within these 17 regions. The company serves a catchment area with a population of 447,000 individuals. The transportation of waste is entrusted to private transport companies, which are selected through competitive tendering processes. The company is accountable for organising waste collection through tendering and routing, as well as managing customer service and invoicing. It operates 22 waste stations across the municipalities.

In 2011, Tammervoima Oy (<https://tammervoima.fi/voimalaitos/english/>) was established as a collaborative initiative between Tampereen Sähkölaitos (Tampere Power Utility) and Pirkanmaan Jätehuolto. Its main purpose was to oversee the construction of a new waste burning plant in Tampere. This plant utilises a Public-Private Partnership and employs an efficient energy recovery approach for municipal solid waste (MSW). The collected waste originates from the 17 member municipalities amounting to a total of 130,000 tons per year. Additionally, 30,000 tons of waste are sourced from 150,000 residents in Central Finland. To ensure cost-effectiveness, the municipal waste management company in the Jyväskylä region was chosen to supplement waste collection in Tampere, allowing for the construction of a suitably sized facility for incineration purposes. Presently, the Tampere WtE (Waste-to-Energy) plant burns the MSW produced by 650,000 residents, in addition to handling small quantities of hospital waste and commercial waste lots. The maximum distance for waste transportation to the new plant is approximately 150 km.

Source: OECD

JMC can be legally considered an in-house entity, allowing them to sign contracts with municipalities without competitive tendering. This is possible if the following conditions are fulfilled: (1) local authorities exercise control over the JMC in the same way that they control their own municipal departments, and (2) if the JMC supplies an essential part of its operations to the controlling local authorities. The criterion of the essential part of the operations has been set at 80%. In other words, 20 per cent of JMC's operations can be carried out at the competitive market. These regulations follow the EU legislation, although the EU member countries can set smaller percentual limits. Municipalities as the sole owners of a JMC classified as an in-house entity are entitled to procure commodities from the JMC without following the EU public procurement rules allowing them to sign contracts without competitive tendering (Ølykke and Fanøe Andersen, 2016^[2]).

The scope of JMC is limited to certain service areas by interpretations of the Municipal Act made by the Supreme Administrative Court of Finland. For example, municipalities cannot be members nor establish JMCs for businesses based on purely speculative and profit-making objectives. While JMCs are allowed to compete with private and third sector organizations and make profits (within limits explained above), they generally cannot operate in industrial and commercial sectors (Harjula and Prättälä, 2019^[1]).

Other joint municipal organisations

Municipalities have established some specific joint organisations, which are neither public law, nor company law organisations. These are typically associations and foundations which are regulated by corresponding laws. Legally it is also possible that municipalities become members of a co-operative.

The most famous and visible shared services provision association is the Finnish Association of Municipalities which promotes local self-government, advances the development of municipalities and lobbies municipal interests. The much less known but an important shared services provision body is the Municipal Guarantee Board which was established through a legislative action by an act of Parliament. Municipalities' accession to the Board has been and still is voluntary for local governments but gradually all municipalities of the Finnish mainland (i.e., 294 municipalities) have become members. Once they become members, they cannot resign from the Guarantee Board. The Municipal Guarantee Board grants guarantees for funding collected by municipalities or institutions directly or indirectly owned or controlled by the municipal sector, enabling municipalities to borrow money by relatively good terms. (Hood et al. 2010).

3.1.2. Inter-municipal contractual collaboration

Inter-municipal service contracts

A collaborative service production or delivery contract between municipalities is a tempting alternative because the contracting parties do not need to establish a separate legal entity and invest capital funds. Such contracts are considered cost-effective because they enable municipalities to avoid some fixed costs typically associated with the governance of JMOs. However, the potential scope of a contract-based shared services provision has been limited over the years by special legislation requiring the compulsory usage of a JMA or JMC in certain service sectors.

Contractual cooperation is common in the areas of water supply, building inspection, consumer and debt counselling as some of these service sectors are regulated by special legislation imposing municipalities to collaborate through contracting. Collaborative service arrangements can also be found in waste management and educational services.

Inter-municipal contracts can be classified in many ways, but Table 3.3 categorises them as follows: joint committee, joint use service, municipal outsourcing, and joint civil servant contracts. Municipalities may establish a *joint committee* or corresponding organ through contracting, which is not a legal entity but a

body which enables them to share political governance of a specified service produced for common good between the contracting parties. These joint committees are named as host municipality arrangements by the Municipal Act in force.

Municipal contracts enable arrangements where a municipal service is at the disposal of at least two municipalities either simultaneously or consecutively. A municipal *joint use model* represents a case of a reciprocal relationship between equal partners working actively together or by coordinated manners to create potential for synergy and mutual learning. An example of this arrangement is, for example, a Library-on-wheels of two or more neighboring municipalities.

In addition, inter-municipal contracts are used to hire *joint municipal civil servants* or employees. These contracts are typically used by small and rural local authorities. An example is a joint land use or zoning planner for two municipalities. The salary costs of joint civil servant are divided between the municipalities according to the agreed allocation of work amount.

Table 3.3. The main forms of inter-municipal contractual arrangements applied in Finland until 2023

	Joint committee	Joint use service	Municipal outsourcing	Joint municipal civil servants
Characterisation	One municipality is hosting a shared governance body and producing the service	Shared service arrangement	Purchased service	Shared employability
Legal status	Public law bodies based on public law contracting	Private law contracting	Private law contracting*	Joint employees or civil servants
Typical services	Social and basic health care, environmental health care, early childhood education, public transport, primary schools, rural admin., local waste authorities	Libraries-on-wheels, nurseries, (high schools)	Nurseries, community colleges, music schools, building inspection, procurement services, selected social services	Zoning planners, child welfare officers, head of educational and culture services, some project workers
Recent trend / prevalence	Created in 2007 and expanded thereafter.	Low-usage form	Modestly expanding form of IMC	Steady but modest usage
Economic volumes	Remarkable until the end of 2022	Very small	Small	Relatively small
Method of creation	Consistent decisions by municipalities, contracting and setting up a governance body	IM contracting	IM contracting, which may be preceded by a public procurement under some terms	IM contracting and a recruitment
Possibilities of withdrawals (exits)	Termination of a contract	Termination of a contract	Termination or transfer of the contract	Termination of a contract
Access of private parties	No access	Yes, but rare	Yes, but rare	No
Key financial risks	If the matching principle is applied the hosting municipality has a risk of an excessive capacity.	Typically applied full cost inter-municipal service – weak incentive for productivity improvements.	Investments on new service capacity which may remain unused in cases of contract termination	Small numbers of common municipal employees keep risks small and focused on leadership issues
Typical geographical sphere	District, region-wide	A couple of municipalities, (district)	A couple of municipalities	A couple of municipalities

Note: * In some cases, the outsourcing contracts are processed as public procurements

Source: OECD.

Box 3.3. Inter-municipal collaboration in education and culture

TREDU's joint committee (host municipality) model of vocational education

Tampere Vocational College (TREDU) is an example of shared services provision implemented in the Pirkanmaa region of Finland to facilitate vocational education. It operates as a joint committee, where the city of Tampere serves as the host municipality, overseeing the governance of vocational schools. The participating municipalities have entrusted their authority to the host municipality, which acts as the decision-making body. Each municipality nominates a representative to be part of this governance structure.

Municipal members, including the City of Tampere, procure vocational education services from this centralized body. The host municipality is responsible for maintaining vocational facilities and managing separate budget planning, cost calculation, and financial accounting. The range of educational activities offered includes foundational degrees for various occupations, higher and specialized vocational degrees, as well as apprenticeship training for vocational qualifications.

TREDU operates 14 branch facilities across the region, strategically located within the city of Tampere and in seven other municipalities. This collaborative approach fosters economies of scale and scope, facilitating wide-ranging cooperation among municipalities. Additionally, this arrangement enhances TREDU's appeal as an employer in the field and a provider of vocational education services. It exemplifies the host-municipality model of shared services provision and creates a competitive advantage for the region in comparison to other areas operating in the same field.

Fostering student success: joint officers for student counselling initiatives

In Finland, collaborative initiatives involving joint officers for student counselling have gained popularity. An example of such cooperation is the partnership between the vocational joint authority of Savo region (Savo koulutuskuntayhtymä) and the city of Kuopio. Through this agreement, five student counsellors are financed to provide employment services in the region, benefiting students seeking guidance and support.

The collaborative mobile library: enhancing access to literature in Forssa and Tammela

Since 2022, the city of Forssa and the municipality of Tammela have joined forces to operate a shared municipal library-on-wheels. Tammela is the owner of the mobile library, while Forssa contributes by covering its portion of the ongoing and capital expenses. The book collection of the library-on-wheels is co-owned by both municipalities.

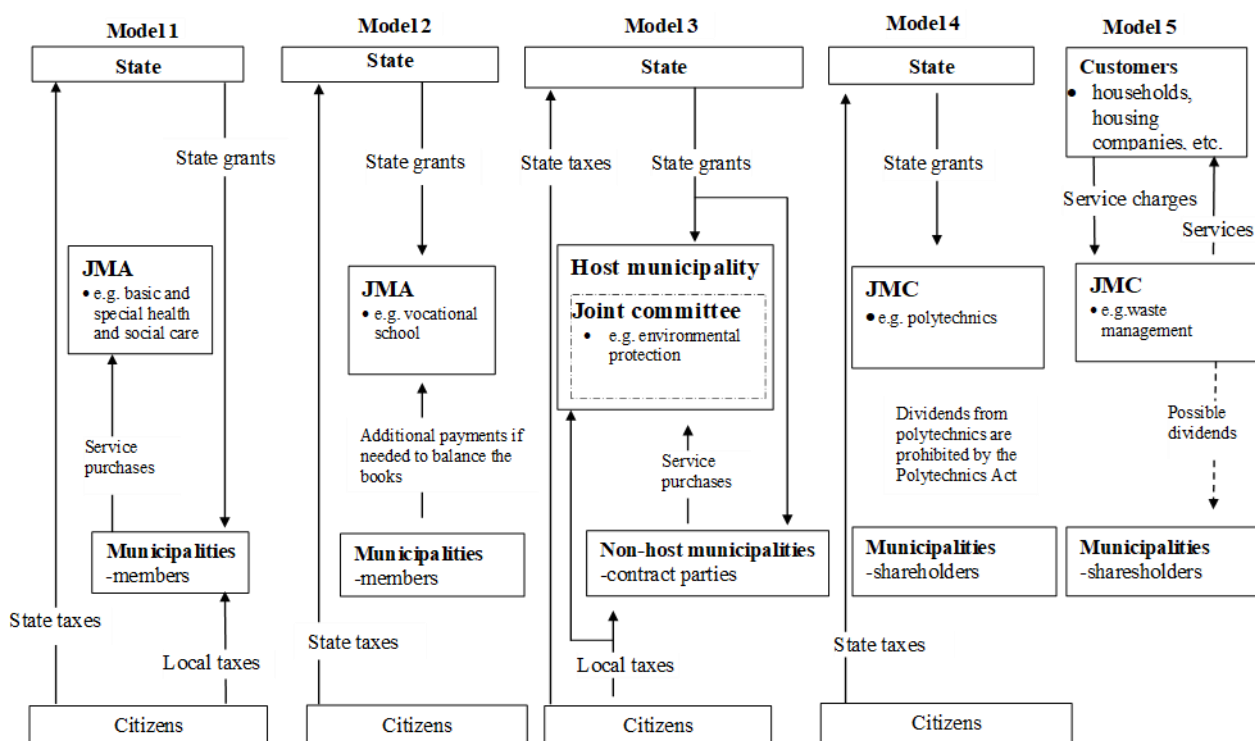
To ensure convenient access for residents, the mobile library serves Forssa and Tammela on alternating weeks. The library-on-wheels was acquired at a purchase price of 460,000 euros, but the state government granted a special subsidy of 117,500 euros to support the initiative. Prior to this collaboration, each municipality had its own separate mobile library service.

Source: OECD.

3.2. Multiple approaches to fund inter-municipal cooperation

As municipalities are the owners of inter-municipal collaborative organisations and contracting parties of shared services provision services, they are obvious bodies to fund IMC. However, this is not necessarily always the case, because funding systems can also be separated from the ownership and governance of the shared services provision services. Figure 3.1 illustrates alternative main funding systems applied in shared services provision in Finland. The figure includes five illustrative models, which are used as examples to highlight the diversity of the funding of operative costs realised in IMC. Capital funding is excluded from the models.

Figure 3.1. Funding models of IMC: five examples from service sectors.



Note: In beginning of 2023 all health care and social services were transferred from municipalities and IMC's to the newly established wellbeing service counties.

Source: OECD.

The **Model 1** is a case of a JMA on basic health care services. Such JMAs were often funded by their member municipalities even though they were also allowed to collect small service charges from the citizens who used their services. The municipal legislation has been relatively permissive allowing local governments to agree quite freely how they agree on their funding responsibilities of JMAs. In practice, municipalities have applied two main methods of full cost funding: (a) the matching principle and (b) the cost sharing method.

- In this context, the **matching principle** refers to a model where collaborating municipalities cover all costs based on the use of services by their residents and the direct and indirect costs caused by such use of services. This funding method was applied extensively in social and health care services illustrated in the model 1.

- The first cost sharing method is based on a **per-capita-based** system. In this method, the collaborating municipalities share the full costs of a service depending on the number of inhabitants in each municipality. The benefit of this funding method is its simplicity. It has been widely used in the services such as environmental health care, joint public procurements, and administration of sub-regional public transport services. The second cost sharing method is based on an **ability-to-pay**-principle. It provides a more egalitarian cost equalisation since municipalities cover the costs of shared services provision based on the proportional shares of their tax base. However, this funding method is very rarely applied.

Conceptually, full cost funding refers to service charges equal to what it costs to produce the service including direct costs (for instance, labor and material costs) and indirect costs (for instance, the appropriate portion of overheads and capital costs) (Local Government Association of South Australia, 2013^[3]; Sipilä, 2003^[4]). The full cost funding method is widely used charging standard both by national and local public authorities, but it is not an unproblematic method. Full costs can be calculated by following different principles and methods of cost accounting and this may result in different divisions of costs (Valkama and Bailey, 2019^[5]; Arruñada, 2001^[6]; Ellwood, 1996^[7]). Full cost service charging can also lead to weak incentives to control the growth of costs because the financial benefits of efficiency measures and productivity improvements imposed by one party are shared and enjoyed also by passive parties (Valkama and Bailey, 2019^[5]).

In Finland, the statutory JMAs have been fully dependent on their member municipalities buying their services and funding their budgets since the 1993 municipal grant system reform. Before the reform, JMAs received central government grants directly from the central government and invoiced only the costs net of central government grants incomes from their member municipalities (illustrated in Model 2 in Figure 3.1). From 1993 onwards, all central government grants have been allocated to municipalities to emphasise the ownership of member municipalities of the JMAs.

However, underbudgeting has been a problem in funding JMA. From a single municipality's perspective, it may be easier to underbudget funding share for JMA than making savings in municipality's own organization. As a result, member municipalities may, especially regarding their needs of special and basic health care, budget less money into buying services than is realistic or sufficient (in other than full cost funding models). Studies made in Finland suggest that municipalities hope that tight budgeting would result in joint authority solving the resulting funding problem via enhanced efficiency without endangering the service quality (Järvinen and Hyvönen, 2003^[8]; Hyvönen and Järvinen, 2002^[9]). The common practice among member municipalities to underbudget their special health care joint authorities service costs has undermined trust between the municipalities and their joint municipal authorities (JMAs) (Karila, Vakkuri and Lehto, 2020^[10]). Despite this behavior, if the actual use of services exceeds the budgeted amount, the member municipality is required to pay the excess expenditure according to the Local Government Act's stipulations regarding covering accrued deficits of their JMAs.

The **Model 2** shows an example of JMAs providing vocational education. Public vocational schools are owned by municipalities and JMAs. In addition, there are also some privately owned vocational institutes. To provide a level of playing field to the vocational schools irrespective of their ownership, the central government (Ministry of Education and Culture) funds the vocational education through central government grants which are paid directly to the provider of the education. A key argument of the direct state funding (instead of paying central government grants to municipalities, as in Model 1) is that funding the providers directly makes it possible for citizens to select whichever educational institution they prefer. In case of JMA's, the member municipalities may provide additional funding, for instance to enable schools to organise further training for the students or to develop their teaching methods.

Model 3 illustrates a *host municipality contract*, where one municipality produces services and hosts a joint committee. Other member municipalities (i.e., contractual partners) nominate their representative(s) to the joint committee which steers the service provision and the use of budget. In this model, the contracting

municipal parties share the cost and fund the services based on the matching principle or the cost sharing principle. The central government grants are paid to the host municipality and partner municipalities. In the host municipality model, the hosting municipality has a risk of building an excessive service capacity, for example if it has made capital investments on buildings and devices, which it cannot effectively use after its contracting parties reduce their service consumption or totally withdraw from the IMC.

Model 4 illustrates an example of a joint municipal company (JMC). For example, all Finnish polytechnics (i.e., universities of applied sciences) are limited companies except those which are owned by the state government and the autonomous Åland Province. JMC's providing the polytechnics receive their funding directly from the state as grants. If a JMC on polytechnics makes profits, the JMC is prohibited to pay dividends to its owners. Instead, the company must register possible surpluses into its balance sheet enabling it to cover some possible losses in the future. Because the central government grants are limited compared with the established activities of the polytechnics, the state funding forces the polytechnics to actively apply external and project-based research, development and innovation funding.

Finally, the **model 5** is an example of pure municipal enterprise, in this case providing waste management services. Most of the JMCs operate like regular businesses, selling their services and charging user fees from their customers (companies are not entitled to central government grants). Many JMCs operate only on a full cost basis, but some of them are also profit-making enterprises. Other JMCs than the polytechnics are allowed to pay dividends to their municipal owners.

JMOs in Finland cannot collect tax revenues, but they may charge their customers such as individuals, families, and private organisations. JMAs typically collect service charges which are fees under the public law. In social and health services, these charges were relatively strictly regulated by Act on Client Charges in Social and Health Care Services. The educational services, regardless of whether education is provided by the municipal or state sector, is a clear exception as public schools do not collect tuition fees². JMCs collect fees under the private law, but even JMAs may also collect minor private law charges if they have some small and temporary businesses or rental revenues. As the funding principles of shared services provision are important and sensitive, they are relatively often disputed by collaborative municipalities. Based on these experiences, municipalities entering a joint funding arrangement must carefully consider and skillfully design the mutual rules on how to keep accounts of incurred costs and how to fund shared services provision operations and investments.

It should be emphasised that JMOs are independent legal bodies with their own legally defined capacities. They are allowed to own movable (i.e., securities) and real properties, which they can privatise or otherwise sell to generate non-recurrent capital incomes. Both JMAs and JMCs are also allowed to borrow money from national and international financial institutions.

3.3. Contractual aspects of IMC

If municipalities decide to establish a JMA, they must prepare and agree on the founding charter of a JMA³. This requirement is stated in the Municipal Act representing the case of a public law type of a contract needed in the governance of statutory and voluntary JMAs. The Municipal Act's Chapter 8 and Section 55 presented in the Appendix defines the minimum requirements on the terms this agreement must include. Municipalities may also include supplementary issues and conditions in the founding charter if they do not invalidate or collide with the minimum requirements set in the Municipal Act. The founding charters must be planned very carefully, because changing it afterwards requires a majority vote. The Association of Finnish Local and Regional Authorities has prepared a model charter for municipal decision-makers⁴.

When establishing a JMC, the municipalities must agree on the Memorandum and the Articles of Association. These are the minimum conditions based on the company law. The Memorandum of Association demonstrates how many shares each shareholder subscribes. According to the Company Law

2:1 §, “by signing the Memorandum of Association, a shareholder subscribes for a quantity of shares, as indicated in the Memorandum of Association. The subscription shall not be cancelled once all the shares have been subscribed for, unless otherwise agreed.” The Articles of Association is like a by-law of a company defining at least the name of a company, domicile, and line of business. Furthermore, the shareholders may also include some voluntary rules and regulations in the article within the permissible limits of the company law.

The Article of Association is not the only document municipalities can use to agree on how to govern a JMC. Another option is to sign a shareholders’ agreement. Shareholders’ agreements are commonly used by municipal owners, but they are not company law documents. Instead, the shareholder agreements are regulated by the principles of the law of contracts. The shareholders’ agreement provides a means to all or the willing shareholders to clarify and mutually agree their ownership policies and the priorities of the corporate governance. These agreements decrease the uncertainties related with general meetings of shareholders by giving a long-term predictability on how shareholders may vote (Davies, 2008^[11]).

3.4. Shared services provision is monitored both internally and externally

All JMAs are internally monitored by their own boards and management. The external monitoring of JMAs is done by the judicial court systems and by the state regional offices in their regions. The state regional offices (Aluehallintovirastot) implement administrative control mostly by examining the citizens’ complaints on services. Furthermore, the Certified Public Finance Auditors (CPFAs) audit the finances of JMAs.

There are two appeals that can also be seen as ways to monitor JMAs: A municipal appeal and an administrative appeal. Any inhabitant of the municipality can make a municipal appeal to the administrative court concerning the JMA’s decision. An administrative appeal is also made to the administrative court, but only the parties involved can make an administrative appeal.

The Municipal Act stipulates about the necessity to keep the JMA finances in a balance. Section 119 states that if a joint municipal authority has not covered the deficit in its balance sheet within the next planning period of four years, the financial assessment procedure by central government will be triggered. According to the law, the Ministry of Finance may, after hearing the views of the joint municipal authority and its member municipalities, designate an independent assessor with the task of drawing up proposals for an agreement between the joint municipal authority and its member municipalities concerning the balancing of the joint municipal authority’s finances. So far, no such cases have materialised. This is most likely because the member municipalities are by law responsible for covering any deficits of their IMCs.

External monitoring of municipal companies, associations, and funds etc., varies depending on whether the monitoring is regulated by the principles and procedures of private company law (Companies Act), law on associations (Associations Act), or foundations (Foundations Act).

Municipal companies, joint municipal associations and funds are monitored nationally based on specific laws such as the Electricity Market Act, Water Services Act, or Waste Act. Internally, they’re overseen according to private company law, association law, or foundation law. For instance, many of these entities require an independent audit chosen by shareholders, though some small companies are exempt from mandatory audits.

3.5. Impacts of inter-municipal co-operation: Lessons from the Finnish experience

3.5.1. *The benefits of inter-municipal cooperation*

Finnish municipalities have been notably small by population compared to their European counterparts and to their extensive spending assignments. Without resorting to collaborative arrangements, these municipalities wouldn't have been able to swiftly and extensively establish high-quality hospitals, health centers, educational institutions, waste treatment facilities, and similar entities. Given that Finland lacked regional democratic governance until 2023, shared services provision served as a substitute for regional government tier.

shared services provision has unified the political objectives of local communities and coordinated disparate efforts to shape a collective vision of the welfare state. This adaptive networking allowed municipalities to select preferred partners across most service sectors and negotiate collaborative contracts without need for state government approval.

The state government has broadly supported IMC, encouraging shared services among local authorities. While the Municipal Act offered municipal councils discretion over the governance of Joint Municipal Organizations (JMOs) and drafting of collaborative contracts, there have been periods where central governments provided special, fixed-term subsidies to promote collaboration.

Flexible voluntary inter-municipal contractual agreements (IMCAs) have successfully compensated for a municipal structure largely based on numerous small municipalities. This approach has reinforced local democracy and self-governance. Numerous studies indicate that the wide-reaching shared services provision system has been cost-efficient, particularly in public healthcare provision and rescue services. However, compared to other Nordic countries with stronger economies and more resources, Finland has struggled in certain areas, such as elderly care, where the quality of working life and services has been unsatisfactory (Kröger et al., 2018^[12]).

3.5.2. *The complexities and challenges of inter-municipal collaboration in Finland*

shared services provision in Finland has developed unevenly due to the mixture of national targets and local public choices, which has led to short-term governance arrangements of shared services. Various challenges have emerged, including democratic deficit created by Joint Municipal Organisations (JMOs) and JMCs. These entities decrease the direct involvement of elected municipal bodies, leading to unequal citizens' legal rights to influence public policies and services.

The use of different forms of shared services provision has resulted in inconsistent service arrangements across the country, leading to administrative differences particularly concerning local democracy and market competition. Empirical studies highlight a geographic centralisation of municipal services due to IMC, which affects access to services and generates out-migration from rural areas.

Tensions have also arisen between Joint Municipal Authorities (JMAs) and their member municipalities due to perceived distance from critical decision-making processes. This challenge is substantial as expenditures of JMAs up until recently made up nearly 30% of all municipal expenditures. Communication challenges also exist due to non-representative members from municipalities on the governance bodies of JMAs.

Furthermore, the rights of municipalities to procure hospital services from other organisations have been limited due to a lack of capable private hospitals, rendering special healthcare JMAs de facto monopolies. The 1970s and early 1980s saw a surge in JMAs, but by the late 1980s, it was recognised that many JMAs did not collaborate effectively, leading to new sectoral legislation and a decrease in the establishment of new JMAs.

The system and forms of shared services provision have been evolutionary and scattered. Specifically, non-statutory organisational structures, contractual arrangements, and inconsistent funding mechanisms for shared services provision services have created instability. This instability has subsequently led to difficulties in compiling statistics on municipal performances and public finances. The 1995 Local Government Act mandated consolidated financial statements for municipalities, but comparative reviews and municipal rankings are still challenged by uncertainties and data deficiencies.

3.5.3. Ways to avoid the main pitfalls when establishing IMC

Inter-municipal collaboration doesn't eliminate competition between municipalities. Instead, it may refocus it into governance bodies, potentially causing internal conflicts. To mitigate such risks, municipalities should maintain open communication, build trust, establish conflict resolution methods, and align their financial commitments.

The implementation of shared services provision includes legal preparations, financial commitments, and re-organisation of duties, which often results in the outsourcing of municipal duties to joint municipal organisations (JMOs). These entities, which operate outside direct municipal supervision, need to be kept accountable through good governance and clear administrative practices to prevent misuse of liberties. Good governance embodies accountability, fairness, transparency, and neutrality, and is achieved through measures like clear internal rules, external auditing, and precise contracts.

Statistical systems should be improved alongside the creation of shared services provision to provide accurate data for planning and control. Despite Finland's well-developed national and municipal statistics, the data on shared services provision activities remains insufficiently registered or collected.

Prior to 1993, the predominant funding method for specialised health service joint authorities was through unconditional central government grants (direct state funding). However, post-1993, the central government grants were redirected to municipalities, requiring them to purchase healthcare services from Joint Municipal Authorities (JMAs). This policy shift transferred the responsibility of cost containment from the collaborative entities to the individual municipalities. As a consequence, both the JMAs and municipalities have experienced challenges in controlling cost development.

Finnish IMC-related research provides several insights into the opportunities and challenges faced. It advises a balanced mix of compulsory and voluntary IMC, minimum standards for welfare state services, enough incentives for shared services provision members to monitor service quality, economic efficiency, and lawful public spending. It also calls for a careful planning of mandatory requirements, contractual terms, and geographical arrangements of IMC.

Notably, shared services provision enhances a horizontal sense of community, particularly when facilitated with two-way communication, staff rotation, shared policies, and joint training. This sense of community, alongside interaction between public employees and employers, is a prerequisite for successful organizational change. Moreover, experience of prior shared services provision and trust among stakeholders bolster decision-making capabilities. The potential to strengthen local community identities and the need for municipal mayors to enhance their community collaboration skills are other crucial insights from the research.

Notes

¹ A municipal company is, in general, a company established and owned by one municipality or by one joint municipal authority (JMA), but at present can only be established for solid waste processing purposes in Lithuania. A Joint municipal company (JMC) is a company owned by two or more municipalities, or two or more JMAs (Joint Municipal Authorities), also limited at present in Lithuania to solid waste processing.

² An exception to this are students from a non-EU countries, who must pay tuition fees.

³ A municipal association is established when the councils of all founding municipalities have approved the founding charter.

⁴ A model contract for JMA is provided by Finnish Association of Municipalities (in Finnish): [Kuntayhtymän perussopimusmalli](https://kuntaliitto.fi/perussopimusmalli) | [Kuntaliitto.fi](https://kuntaliitto.fi).

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4 Key recommendations and the action plan

Based on the analysis of Lithuania's policy framework for shared services provision detailed in Chapter 2, along with insights from international best practices, particularly the Finnish model explored in Chapter 3, a series of recommendations and an action plan¹ is proposed. These are designed to enhance Lithuania's legal, fiscal, and institutional framework for the provision of shared municipal services, thus supporting efforts to improve the efficiency, accessibility, and quality of these services.

4.1. Recommendations to establish and consolidate the legal framework for municipal shared services provision

This section outlines recommendations to address the fragmentation and incompleteness in the legal framework governing the provision of shared municipal services.

4.1.1. Establish a clear legal base for shared services provision and concentrate the core regulations concerning the establishment and governance of municipal collaboration within the Law on Local Self-Government (LLSG)

To address the challenges discussed in Chapter 2 and detailed in Figure 2.4, the recommendation is to improve the legal clarity and operational efficiency of shared services provision in Lithuania. In order to accomplish this, it is advisable to concentrate all foundational and technical regulation of shared services provision within the Law on Local Self-Government (LLSG) (see the next subsection about the recommended content of such legal provisions). For instance, the Finnish Municipal Act's Chapter 8 specifies permissible shared services provision forms, foundational regulations for the establishment, governance, and financing of municipal collaboration.

Should the LLSG be updated as suggested herein, adjustments will be required in the existing legal framework that currently governs the formation and management of shared services provision, to avoid duplication in legal provisions. For instance, it would be advisable to refine the Law on Regional Development to avoid overlapping regulation concerning the establishing of the shared services provision².

It is nevertheless advisable that some legal provisions concerning municipal collaboration are presented in other laws. Mandatory shared municipal service provision forms an example of such an exception³. If Lithuania should see a need for mandatory shared municipal service provision, such services should be regulated in specific laws. For example, in Finland, the Regional Development Councils and hospital services have been defined as mandatory municipal collaboration. The legal regulation for these two services are outlined in the Act on Regional Development and in the Hospital Act. These sector-specific laws refer to the Municipal Act for the overarching legal framework, thereby allowing specific legislations to focus on detailed regulations necessary for the formation of RDCs or hospital district collaborations. Furthermore, the laws that regulate municipal finances and public procurement, should also continue to contain legal provisions that apply to joint municipal bodies.

It is essential that other laws that contain legal provisions that concern shared municipal service provision align with the LLSG. This approach positions the LLSG as the primary legal instrument and an umbrella for other laws related to shared municipal service provision. By ensuring consistent regulation across both general (LLSG) and sector-specific and other relevant laws, this proposed structure fosters a cohesive and comprehensive legal framework for shared municipal services.

4.1.2. Specify authorised forms of shared services provision with more precision

As was discussed in detail in Chapter 2, the LLSG does not adequately steer or inform municipalities in establishing shared services provision. Overall, the current legal provisions fail to address the key practical issues involved in the establishment and operation of shared municipal services.

It is recommended for Lithuania to clarify the legal regulation for shared services provision by describing in more detail the permitted collaboration between municipalities. Establishing such legal framework would better enable municipalities to form both the soft and the more advanced cooperation in different sectors and for various purposes (such as in infrastructure, transport, healthcare, education, and social services).

More specifically, it is recommended that Lithuania revises and expands the legal framework for municipal collaboration, firstly, by introducing specific forms of shared municipal service provision: 1) joint decision-making bodies, 2) joint public staff posts⁴, 3) joint agreements on the management of official duties⁵, 4) joint municipal authorities, and 5) joint municipal companies. Such legal framework should make clear distinction to shared services provision that is based on joint municipal organisations (e.g., joint municipal authorities or joint municipal companies) and shared services provision based on contracts.

Secondly, it is crucial that the LLSG outlines clear minimum requirements for setting up such collaborative structures, as detailed in below.

Joint decision-making body (a host municipality)

In this shared services provision type, a single municipality is entrusted with carrying out a specific function on behalf of one or multiple municipalities. To oversee and manage this shared responsibility, the participating municipalities would establish a collaborative decision-making body.

A joint decision-making body, such as a joint committee, involves a setup where one municipality manages services for other municipalities. The shared governance committee is formed by representatives from all participating municipalities, who delegate their authority to the municipality in charge (the hosting municipality). The hosting municipality then takes on the responsibility for both producing and delivering the services.

To ensure legal clarity and transparency, the law should stipulate a requirement for the preparation of an agreement to establish this joint decision-making body. While the municipalities should be responsible for agreeing on the detailed content of such elements, the agreement should encompass, at a minimum, the following key components:

- A clear description of the functions and responsibilities assigned to the joint decision-making body.
- The defined composition and structure of the joint decision-making body.
- A framework for determining costs associated with the function(s).
- A transparent mechanism for dividing these costs equitably among the participating municipalities.
- The specified duration of the agreement, along with provisions outlining how the agreement can be terminated.

An example of the legal provision of a host municipality arrangement and an example of the founding agreement of a host municipality arrangement are provided in Annex D.

Joint use of municipal human resources⁶

The second type of shared services provision could involve municipalities by jointly filling a job position. To ensure smooth operation, municipalities should reach an agreement regarding which specific municipality will bear the responsibilities associated with being the employer.

Furthermore, the collaborative agreement between the municipalities should comprehensively outline the following aspects:

- Principles of the determination of costs linked to the shared public position. This includes factors such as salary, benefits, and any other expenses associated with the position's operation.
- To ensure equitable sharing of financial burdens, the agreement must detail the method by which costs will be distributed among the participating municipalities. This should include clear guidelines on how each municipality will contribute financially to support the shared public position.
- The validity and termination of the agreement.

This arrangement can be used for shared municipal HR resources in general.

An example of the legal provision for a joint municipal staff posts and an example of the agreement on a joint municipal staff post are provided in Annex D. A model agreement on transferring an official duty to a host municipality is provided in Annex E.

Joint municipal authorities

For the most advanced tasks, a joint municipal authority could be defined in the law. It is recommended that the LLSG defines that municipalities may agree that municipalities could jointly establish a joint municipal authority for shared municipal service provision to handle certain tasks on their behalf. A joint municipal authority should be defined in the law as a separate, independent public law entity from its member municipalities, with its own field of operation defined in its founding charter, as well as its own governing bodies and personnel.

The LLSG should regulate that a joint municipal authority can be formed by municipalities through a founding charter or an agreement mutually endorsed by the municipal councils of the participating municipalities. As a legally recognised entity, a joint municipal authority would possess the capacity to acquire rights, enter into obligations, and assert its right to representation in legal proceedings and before other public authorities.

The founding agreement should include at least the following elements:

- The functions of the joint municipal authority.
- The number of representatives in the joint municipal authority's council and general assembly and their rights.
- Other decision-making bodies and their functions.
- Cost principles and sharing of costs for capital, assets and operations.
- The defined responsibility for the joint municipal authority's finances and debt, as well as the procedures by which its deficit should be covered in a situation where member municipalities have not approved exceeded budget.
- Clear fiscal rules applying to joint municipal authority.
- The monitoring and reporting of the joint municipal authority's finances and its auditing.
- The auditing of the joint municipal authority.

To this end, Lithuania should consider utilising the existing legal provisions and practice of municipal budgetary bodies, by amending the law to allow several municipalities to establish such body jointly and for municipalities to enter the existing bodies as new members, taking into account the recommendations of the founding agreement described above and in the Annexes.

An example of the legal provision of joint municipal authority and an example of a Founding Charter of a joint municipal authority are provided in Annex D.

Joint municipal companies

The Lithuanian LLSG mentions the possibility of establishment and operation of municipal companies, and the law defines "undertakings controlled by a municipality" as municipal undertakings operating pursuant to the Law on State and Municipal Enterprises. The LLSG also mentions the possibility of establishment of joint undertakings by municipalities.

While the key law for establishing municipal companies in Lithuania is the Law on State and Municipal Enterprises, this law does not allow for multiple municipalities to either establish joint municipal companies or to join existing joint municipalities.

It is recommended to amend the Law on State and Municipal Enterprises and other laws such as LLSG so that municipalities can establish joint municipal companies and join an existing one as a full-fledged co-owner and decision-maker (e.g., change the number of shareholders authorised).

An example of legal provision for joint municipal company and example of the founding agreement (shareholder's agreement) of a joint municipal company are provided in Annex D

4.1.3. Develop a clear legal base for municipal pilots

Based on international examples for testing new solutions in the public sector, several concrete recommendations can be made for Lithuania to establish a favourable legal framework for carrying out trials and pilot experiments in municipal shared service provision. These could be applied when piloting shared services provision but also other important policies:

1. Establish a clear legal basis for municipal trials/pilots:
 - a. Introduce specific statutory provisions in Lithuanian law that allow for trials and piloting within the public sector, including the possibility of granting exemptions from existing laws or regulations under certain conditions.
 - b. Incorporate exemption clauses in existing laws or sector-specific regulations that permit deviations for the sake of piloting under certain conditions.
 - c. Amend special laws (e.g., education, health, social) to include trial provisions that allow for fixed-term deviations from standard rules.
 - d. Strengthen or establish legal provisions that facilitate shared services provision in conducting pilots, allowing municipalities to pool resources, share risks, and collaborate on larger scale projects.
 - e. Enshrine in law the provision of dedicated funding and resources for municipalities to conduct pilots. This could include financial support from the central government, as well as legal provisions that allow municipalities to seek external funding.
2. Consider establishing a specific Act for public sector piloting schemes:
 - a. Consider enacting a law or Act which allows for pilot schemes aimed at developing efficient forms of organisation and operation in public administration. This law could detail the process for applying for, conducting, and evaluating pilot schemes, while being general enough to be adapted to local contexts on a case-by-case basis.
3. Strengthen the capacity of municipal staff to conduct pilots:
 - a. Develop and implement a comprehensive guide on the legal aspects of conducting municipal pilots, including templates for application processes, criteria for approval, and frameworks for monitoring and impact evaluation.
 - b. Provide training to municipal staff on the legal aspects of municipal pilots.
 - c. Promote the exchange of knowledge and good practices among municipal stakeholders to run successful pilots and avoid common pitfalls.

An example of legal provision for piloting in public administration is provided in Annex D.

4.2. Recommendations concerning fiscal framework: enabling shared services provision by removing disincentives

4.2.1. Create an enabling funding model to encourage shared municipal service provision

As described in Chapter 2, the municipal fiscal autonomy is limited which potentially diminishes the appeal of shared municipal service provision, especially if the anticipated efficiency gains are not evident to municipalities. To cultivate a stronger, inherent demand for shared municipal service provision, and demand for more efficient solutions in general, it is recommended that Lithuania enhances its municipal fiscal autonomy over time.

To create the right fiscal incentives for shared municipal service provision, central government grant⁷ allocation mechanisms should encourage cooperation, rather than competition, among municipalities. Offering financial incentives for joint projects or collaboration on service delivery can help promote shared municipal service provision. But it should be emphasised that, while voluntary cooperation can be encouraged with temporary earmarked central government grants that cover part of the cost for setting up such arrangements, the main incentive for shared services provision for municipalities in the long-run should be the expected cost-efficiency improvement and better quality and availability of services. It should also be ensured that municipalities do not lose central government grants when engaging in shared municipal service provision. Municipalities should be able to keep the savings made with shared services provision arrangements.

To this end, the following recommendations are made:

- Continue strengthening municipal fiscal autonomy by reducing their reliance on central government grants and allowing them to retain a greater share of locally generated revenue.
 - Assign the residential property tax entirely to the municipal level.
 - Allow municipalities to set a surtax on the personal income tax, with a corresponding reduction of the national income tax.
 - Allow municipalities some tax rate setting autonomy over the personal income tax, maybe within bands set by central government.
- Reduce the use of earmarked grants (i.e. the state subsidies for delegated functions) in the central government grant system, as these can create administrative burdens and disincentivise municipalities to establish shared municipal service provision:
 - Ensure more stable and predictable grant revenues.
 - Reduce the share of earmarked grants and move away from input towards output regulation.
 - Allow municipalities to retain and reallocate efficiency savings on earmarked grants. In particular, abandon regulation that municipalities should return unused earmarked grants (i.e. the state subsidies for delegated functions).
 - Merge the different sectoral grants into a smaller number of larger general purpose grants.
- Provide temporary financial assistance to cover initial costs associated with establishing joint services or projects.

Full list of recommendations provided in the earlier OECD report, “Raising Local Public Investment in Lithuania: Ensuring quality while maintaining financial sustainability” (OECD, 2021^[1]), are provided in Annex D.

4.2.2. Establish practical and transparent funding models for municipalities to establish shared municipal service provision

As discussed in Chapter 5, there are four main alternative models for funding shared municipal service provision:

1. Member municipality contributions,
2. Central government grants,
3. Own revenue raising by the collaborative bodies (user fees, sales revenue etc.),
4. Other revenue.

These can be used as either a sole source of shared services provision funding, or in combinations. For example, in Finland, in case of municipal health and social services, the municipalities funded most operating expenditure of collaborative bodies with their own tax revenue and central government grants. In addition, the collaborative bodies were allowed to collect user fees within limits regulated by the law. In contrast to health and social services, in secondary education, the service providers received grants directly from central government, and the municipalities paid only the net cost (total cost minus central government grants received).

Member municipality contributions: models for equitable cost sharing in shared municipal service provision

It was recommended above that the LLSG includes a legal requirement for municipalities to establish a cost-sharing model within the founding charter of the collaborative body for the provision of shared services.

In order to define member municipality funding contributions of shared service provision, reliable information on costs based on solid accounting tools are needed for agreeing cost sharing. While the optimal cost sharing method depends on the type of public service and intensity of collaboration, and the eventual decision should be left with the participating municipalities, the following methods and principles should be considered by Lithuania:

- **Full cost funding:** All direct and indirect costs of the shared services are factored into the price. To share the full costs, two main alternatives are available⁸:
 - **Matching principle:** The collaborating municipalities cover the costs caused by the service use of their residents. Under this principle, municipalities in collaboration are responsible for covering the costs generated by their residents' usage of services. This method aligns costs more closely with the benefits received by each municipality. This approach, exemplified by the joint municipal authorities in Finland for health and social services, ensures fair cost distribution based on actual service consumption. However, it poses budgetary risks if municipalities initially under-budget their contributions or cannot control service usage. It is also possible that a municipality could face very high costs due to an unexpected event⁹. Additionally, in case of the host municipality model, the hosting municipality faces potential risks related to excess service capacity, particularly if substantial investments in infrastructure become underutilised due to reduced service demand or if other municipalities withdraw from partnership.
 - **Population based cost sharing:** This approach involves municipalities sharing the total service costs based on their populations (on per capita basis)¹⁰. The benefit of this method is its simplicity. This method assumes that the benefits of the shared services provision project are distributed proportionally to the population. It has been widely used in Finland for example in services like environmental healthcare, joint procurements, and sub-regional public transport services. The downside of this method lies in its limited motivation for cost control, as the

burden of additional expenses resulting from one municipality's increased service usage is distributed among all members.

- Other methods for cost sharing include:
 - **Equal share contribution:** In this approach, each member municipality contributes an equal share of the total costs, regardless of size, usage, or demand. This method is simple and may be suitable for initiatives where benefits are equally distributed or difficult to quantify. In Finland, the equal share principle has sometimes been used to share costs of joint public transport services.
 - **Ability-to-Pay contributions:** Contributions are based on the fiscal capacity or economic strength of each municipality. Wealthier municipalities contribute more, providing a mechanism for financial solidarity among municipalities. This model has been used for example to share costs of regional policy councils in Finland.
 - **Hybrid model:** A combination of the above methods can be used to tailor cost sharing to the specific circumstances and objectives of the shared municipal service provision. For example, an initial cost might be equally divided, with additional costs allocated based on usage or population size. This method allows for flexibility and can be adjusted to meet the diverse needs of member municipalities.

Table 4.1. Summary of possible cost-sharing models for shared service provision

Cost Sharing Method	Description	Example use case	Likely benefits	Likely challenges
Full cost funding	All direct and indirect costs of shared services provision are included in the cost calculation.	Recommended general approach for shared services	Enables fair distribution of costs; clear accounting of all service-related expenses.	Complexity in calculating full costs; potential disagreements on cost allocations.
Matching principle	Costs are covered based on service usage by residents, aligning costs with benefits received. Recommended for services like health care.	Health and social services	Fairness in cost distribution; costs linked directly to usage.	Budgetary risks; possible cost overruns if usage exceeds forecasts.
Population based cost sharing	Costs are shared based on the population of each municipality, simple but may lack incentives for cost control. Widely used for services where benefits per capita are evenly distributed.	Rescue services, advisory services	Simplicity in calculation; suitable for evenly distributed or hard-to-measure benefits.	Limited motivation for cost control; additional expenses from increased usage distributed among all.
Equal share contribution	Each member contributes an equal share of total costs, useful where benefits are equally distributed or hard to measure.	Joint public transport	Simplicity; equality in cost sharing irrespective of size or usage.	May not reflect actual service usage or need; potential for perceived unfairness.
Ability-to-Pay Contributions	Contributions are based on the economic strength of each municipality, promoting financial solidarity.	Regional policy councils in Finland	Equity in financial contribution; wealthier municipalities support more.	Complex to determine fair contributions based on economic strength; may require frequent reassessments.
Hybrid model	Combines methods based on specific circumstances and objectives, providing flexibility and promoting fairness in cost distribution.	Customisable to various shared services scenarios.	Adaptability to diverse needs; can facilitate combination of fairness and flexibility.	Requires careful planning and monitoring to ensure effective implementation.

Source: Author's elaboration.

Box 4.1. Aspects to consider when choosing a cost-sharing model for shared municipal services provision

1. Is the service usage easy to measure?

- **Yes:** consider measure-based cost-sharing (go to step 2).
- **No:** consider cost-sharing based on other than measure-based factors (go to step 3).

2. Is the service usage similar across municipalities?

- **Yes:** consider the population based cost sharing.
- **No:** consider the matching principle cost-sharing.

3. Are the benefits of the service equally distributed?

- **Yes:** consider equal share contribution.
- **No:** consider cost-sharing based on ability-to-pay or a hybrid model (go to step 4).

4. Is there a significant economic disparity between the municipalities?

- **Yes:** consider ability-to-pay cost-sharing.
- **No:** consider using a hybrid model that combines multiple cost sharing methods.

5. Implementation

- Include all direct and indirect costs of shared services in the cost calculation (i.e. use the full cost model).
- Establish the chosen model in the founding charter of the municipal collaboration.
- Monitor and adjust the model as needed based on actual service usage and financial outcomes.

Note: This presentation is indicative and does not aim to be exhaustive. It aims to give examples on factors to take into consideration when deciding the cost-sharing methods. In the above, “service usage” refers to the extent in which the joint municipal service is utilised by the residents or entities within each municipality or joint body. It involves quantifiable measures of how often or to what degree the service is used or consumed. An example could be shared water supply service, in this case service usage could be measured by the volume of water consumed by each municipality’s residents. “Benefits of service” refer to the positive outcomes or advantages that municipalities and their residents receive from the shared municipal service. These benefits can be economic, social, or environmental, among others, depending on the service in question. When considering cost-sharing models, it is important to try to evaluate how the benefits of the shared service are distributed among the municipalities. If the benefits are equally distributed, an equal share contribution might be fair. If benefits vary significantly, cost-sharing models may need to account for disparities, ensuring that each municipality pays a share proportionate to the benefits received. As an example, for a shared public transportation system, the benefits might include improved mobility, reduced traffic congestion, and environmental advantages. If all municipalities benefit equally, costs can be split equally. However, if some municipalities gain more due to higher ridership or more significant reductions in congestion, a different model, such as one based on ridership or economic benefit, might be more appropriate. The “economic disparity” in above refers to the differences in economic wealth, income levels, and financial capacity among the municipalities involved in the shared service provision. Economic disparity can significantly impact each municipality’s ability to contribute financially to the shared service. If there are substantial differences in economic strength, a cost-sharing model that accounts for these disparities can ensure that all municipalities can participate fairly and sustainably.

Source: Author’s elaboration.

Fostering shared services provision with central government financial support

Central government financial support can play a role in encouraging municipalities to engage in shared municipal service provision. One potential cost-neutral method is to channel central government grants (in the Lithuanian case: the subsidies for delegated functions, or the funds based on shared income tax revenue) directly to collaborative entities rather than to individual municipalities. This approach ensures that funds are specifically used to support joint initiatives, making collaboration financially attractive. Such central government grants to municipalities can cover a range of collaborative efforts, from shared infrastructure projects to joint service delivery, encouraging municipalities to pool resources and expertise.

Another potential strategy involves defining the central government grant amount based on wider-than-single municipality areas. By tying central government grant eligibility or the amount of funding to the scale of collaboration, central governments can encourage municipalities to seek partnerships with neighbours. The risk in this alternative is that smaller and poorer municipalities may find it unfair if the level of central government grants does not match the local needs. The model requires high quality information on the local circumstances to ensure a fair allocation of grants.

An example of a conditional grant to incentivise municipal collaboration and an example of channelling central government grants directly to collaborative entities rather than individual municipalities are provided in Annex D.

4.2.3. Improve access to financing to better enable joint municipal investments

Municipalities are currently allowed to contract short-term and long-term loans (article 10 of the law on Budget Structure). However, they have low borrowing autonomy and are subject to stringent budget rules as defined in the Constitutional Law, Law on Budget Structure and in the law on the Approval of the Financial Indicators of the State Budget and Municipal Budgets, compared to other EU countries (e.g., different balanced budget rules, capacity to issue bonds at municipal level) Table 2.5. As discussed in detail in the OECD report “Raising Local Public Investment in Lithuania” (OECD, 2021^[1]), there is no pooled financing mechanism in Lithuania contrary to other EU countries (e.g., Finland, France, the Netherlands). As a result, municipalities, especially smaller ones, have limited access to external financing for large projects.

It is recommended that Lithuania establishes a pooled financing mechanism (e.g., credit institution owned by municipalities, such as in France, Sweden, Denmark or Finland) as a mean to increase cooperation between municipalities in large projects. These aspects are discussed at length in (OECD, 2021^[1]), so here are listed only the key aspects:

- Create an agency for pooled municipal borrowing, either owned by the municipalities or jointly by municipalities and central government.
- Avoid explicit or implicit central government guarantees on individual municipal loans.

An example of a joint municipal body for municipal and joint municipal borrowing is provided in Annex D.

4.2.4. Ensure clear fiscal rules for shared services provision

Lithuanian municipalities are subject to various fiscal rules, including a balanced budget rule. Compliance with fiscal rules is monitored by the Ministry of Finance and State Audit Office. Small and large municipalities are treated differently by the rules. If a municipality does not comply with the rules, the primary consequence is the loss of eligibility to receive central government grants for the co-financing of EU Structural Funds. While it appears that shared municipal service provision in Lithuania is governed with same fiscal rules as municipalities, the regulation could be clarified and amended.

Here are recommendations to enhance the fiscal rules for shared municipal service provision in Lithuania:

- Ensure that a fiscal oversight mechanism applied for monitoring municipal finances is tailored to shared service provision, involving regular financial reporting, performance evaluations, and external audits, to ensure accountability and transparency.
- Joint municipal authorities (see the recommendation that was made earlier in this section) and Joint municipal companies (described above) should be allowed the legal right to borrow for investments. The borrowing rules applied to single municipalities should be tailored for joint municipal authorities, ensuring that the regulations do not create incentives to bypass the fiscal rules using the collaborative arrangements. In the same vein, the borrowing rules for joint municipal companies should follow the same principles as those for municipal companies owned by a single municipality.
- Develop a tailored non-compliance financial rule management subprocess for collaborative bodies, focusing on early detection of financial distress.
- Ensure that there is clear framework for interventions by individual member municipalities to prevent financial crises. This could be done by requiring in the legal framework (LLSG) that the founding charters of municipal collaborative bodies should include a governance process to describe how the board of joint municipal authority organises negotiations with the member municipalities on financial matters. In other words, formalise the role of member municipalities in the founding charter in monitoring and supporting the financial stability of collaborative bodies, ensuring that early intervention mechanisms are in place.

An example of legal provision for funding the municipal collaborative bodies and financial rules is provided in Annex D. The Annex D also provides an example on how to formalise financial negotiations between the collaborative body and member municipalities (agreement's section on Corporate Governance).

4.3. Recommendations for a supportive institutional framework for shared municipal service provision

4.3.1. Reinforce the role of Central Project Management Agency (CPMA) in supporting municipal shared service provision

Lithuania would benefit from CPMA providing advisory services for municipal shared service initiatives, leveraging its existing mandate to support government bodies. Enhancements to CPMA's capabilities should include guaranteed funding for these roles, authority to provide technical, legal, and administrative assistance, and facilitating forums and networking events for shared services. From the municipal perspective, this support would simplify drafting founding charters, establishing cost-sharing mechanisms, and managing collaborative projects, with potential input from the competence network (Kompetencijų tinklas) for additional expertise.

- Empower CPMA to offer comprehensive technical support on financial and administrative aspects of shared services provision to municipalities initiating collaborative projects.
 - Enable CPMA to assist in planning and negotiating the content of founding charters/basic agreements, focusing on service cost determination and the establishment of cost-sharing mechanisms (membership fees).
 - Ensure regular funding for CPMA for being able to offer technical, legal and administrative support for municipalities for establishing shared service provision arrangements.
- Designate CPMA to organise forums facilitating dialogue among municipalities on shared services provision topics, to share success stories (e.g., national champions) and good practices, and to organise networking events.

- Empower CPMA to collaborate with other central government agencies, ministries, municipalities, ALAL, and the competence network (Kompetencijų tinklas) to ensure that shared services provision can be organised more effectively.

4.3.2. Establish standardised descriptions of municipal public services

It is recommended that Lithuania establishes a standardised classification and description of the municipal public services. This would significantly enhance the municipal governance and would lead to improved data accuracy and reliability, which would allow for more accurate comparisons and benchmarking between municipalities.

To this end, the following steps are recommended:

1. Establish a steering committee composed of representatives from various municipalities, ALAL, Statistics Lithuania, key ministries responsible municipal public services, CPMA, other government agencies and stakeholders, to oversee the development and implementation of the classification system.
2. Conduct research on existing classifications in other countries, such as the Finnish “JHS 200 Municipal and joint municipal authorities' service classification” (see Annex D).
3. Define service categories by explicitly outlining what constitutes municipal services (delegated and independent), and group them into broad categories such as economic sectors. This could include utilities, education, healthcare, public administration, etc. Utilising the COFOG classification and handbook is advisable.
4. Collaborate with municipalities to collect feedback and ensure the classification meets local needs and conditions. This can be achieved through workshops, forums, public consultations and written comments.
5. Execute a pilot project in selected municipalities to test the classification system. Analyse the results and make necessary adjustments based on the feedback and practical challenges encountered.
6. Finalise the classification system and establish a timeline for national rollout. Provide training and resources to municipalities for implementation.
7. Create a procedure for regular updates to the classification system to accommodate new services and changes in municipal functions. This could involve a dedicated team or periodic reviews every year.
8. Ensure the classification system integrates seamlessly with national statistics and reporting systems to enhance data collection and analysis capabilities.

An example of the standardised classification of municipal public services in Finland (JHS 200 Municipal and joint municipal authorities' service classification) is provided in Annex D.

4.3.3. Improve the quality and reliability of data concerning municipal costs and service use to enable shared municipal service provision

Building on the work of standardising descriptions of municipal public services, it is recommended that Lithuania also begins to enhance its database on municipal service costs and the usage of services. This will help improve the service planning, delivery, and financial management at the municipal level and facilitates comparisons and analysis at the national level.

To this end, the key recommendations for Lithuania include:

- Develop standardised classification and reporting guidelines. Adopting a standardised system for municipal accounting¹¹ and reporting municipal of service costs would facilitate consistent financial

reporting and analysis. This includes defining clear categories and content (which items should be taken into account) for services and costs, ensuring that data from different municipalities are comparable.

- Develop a platform for collecting, storing, and analysing data on municipal service costs and usage. Using an automated data collection technology would enable quicker data collection.
- Once the standardisation is finalised, Lithuania should build municipal capacity and train officials in municipalities and service providers to data collection and reporting techniques.
- Encourage experience sharing, comparing results and transparency among all stakeholders participating in the exercise.
- The other existing data sources containing data on municipal public services should be reviewed and a comprehensive system should be put in place combining different sources.
- Review regularly and improve data collection methods. Continuous evaluation by national statistical authorities and other stakeholders involved in the data collection and reporting process is crucial. This includes regularly reviewing the relevance of collected data, the efficiency of data collection methods, and the quality of data analysis. Feedback from users of the data should be used to make iterative improvements to the system.

Lithuania could utilise Finnish experience has shown that fostering collaboration between municipalities, government agencies, research institutions, and other stakeholders can enhance the quality municipal service data. Partnerships can facilitate knowledge exchange, joint projects, and the pooling of resources for data collection and analysis efforts. Finnish experiences include the development of initiatives like the "Kuntatieto-ohjelma" (Municipal Data Program), the "Aura-käsikirja" (Aura Handbook) (Annex F), and the Sotkanet database by the National Institute for Health and Welfare (THL), for planning and carrying out reforms on cost accounting and reporting in municipal services.

A translated version of the "Automated financial reporting manual for municipalities and joint municipal authorities" (AURA Handbook) is provided as an example in Annex F (unofficial translation from Finnish to English). In addition, the Finnish chart of accounts of municipalities, joint municipal authorities, municipal enterprises, joint municipal enterprises and balance sheet units and the consolidated financial statements of municipalities and municipalities is provided as an example in Annex G.

4.4. Action Plan

4.4.1. Legal framework

Establishing a clear and enabling legal base for shared municipal service provision



Context for Action

See recommendations and examples made in Chapter 4. Currently, the Law on Local Self-Government (LLSG) and other existing legal frameworks in Lithuania do not include a comprehensive set of provisions for municipal shared services provision. The current legal provisions for municipal collaboration are dispersed across various sectoral laws, and there are notable gaps in the regulatory landscape. It is advisable for Lithuania to expand its legal framework and to consolidate these regulations within the LLSG.



Actions

- Utilise the review of the current legal regulation made in this report, making sure that the mapping made in Figure 2.4 covers all existing relevant legal provisions for shared service provision.
- Start the legislative drafting for updating the LLSG to cover the gaps of legal provisions identified in this report.
 - Prepare a separate chapter in the LLSG that provides legal provisions for shared services provision for (see recommendations made in section 4.1.2):
 - The **forms of shared municipal services provision**: 1) joint decision-making bodies, 2) shared HR resources 3) joint municipal authorities, 4) joint companies.
 - The content of **Founding Charter** or basic agreement of shared service provision body (administration, funding, cost-sharing etc).
 - Decision-making bodies of shared services provision bodies (council, board, assembly).
 - Withdrawal from collaboration.
 - Resolution of disputes in collaboration.
 - Abolish the three forms of shared service provision currently mentioned in the LLSG.
- Concentrate all legal regulation concerning the establishing and governing of shared services provision to LLSG, except the specific regulation that may be needed for mandatory municipal collaboration, which should be defined in sectoral legal regulation.
 - Make sure that LLSG contains all the core legal regulation of shared municipal services provision and that the sectoral laws refer to it. Only in rare specific cases allow sectoral or other legislation contain legal provisions on municipal collaborative arrangements.
 - Alter the other legislations (see the first step in this list of Actions) currently regulating shared services provision by reducing the provisions which have been moved to LLSG to avoid overlapping regulation.



Actors

- Central government level

Develop a legal base for public sector pilots to enhance shared services provision initiatives



Context for Action

See recommendation and example made in section 4.2. Establishing a clear legal basis for public sector trials/pilots is recommended to Lithuania to ease establishing pilots and to ensure that pilots are executed with high quality.



Actions

- Establish a specific Piloting Act for public sector pilot schemes or introduce specific statutory provisions and/or exemption clauses in existing laws in Lithuania that allow for trials and piloting within the public sector:
 - Establish legal provisions that allow temporarily relaxing existing legal provisions for the pilot experiment (e.g. flexibility in staffing, use of central government grants, tax revenue).
 - Establish legal provision that ensures funding and resources to conduct pilots;
- Strengthen the capacity of municipal staff to conduct pilots:
 - Develop and implement a comprehensive guide on the legal aspects of conducting municipal pilots:
 - Definitions of different types of experiments
 - How to initiate and carry out a pilot experiment (applications and funding)
 - How to evaluate the impacts of pilot experiments
 - How to utilize the information provided by the pilots
 - Provide training to municipal staff on the legal and aspects of municipal pilots on the above-mentioned aspects.
 - Establish an expert network on public sector piloting, consisting of legal experts, researchers, administrators in central government and municipalities, to promote the exchange of knowledge and good practices to carry out successful pilots.
 - Organising annual thematic conferences on public sector piloting.
 - Creating a website “experimentalLithuania.lt”, or similar, to publish practical support for piloting.



Actors

- Central government and municipalities

4.4.2. Fiscal framework

Create an enabling funding model for shared municipal service provision



Context for Action

See recommendations in 4.2. Lithuania's municipal funding is mostly from central government grants, which may discourage shared services due to limited fiscal autonomy. To promote shared services, Lithuania should increase fiscal independence, encourage cooperation over competition in central government grant mechanisms, and allow municipalities to keep savings from shared services.



Actions

- Enhance municipal revenue autonomy:
 - Implement policy changes to allow municipalities more control over local revenue, reducing reliance on central government grants.
- Reform the central government grant system:
 - Revise the Law on Methodology of Determination of Municipal Budget Revenue and other relevant legal provisions for municipal revenue to prioritise general grants over earmarked grants (the state subsidies for delegated functions), giving municipalities flexibility in resource allocation and promoting shared services provision initiatives.
- Enable savings retention from shared municipal service provision:
 - Modify budget law to permit municipalities to keep any savings made from shared municipal service provision.
- Initiate financial support for shared municipal service provision:
 - Provide financial assistance to municipalities to cover the initial costs of establishing shared services provision projects, making collaboration more feasible.



Actors

- Central government

Establish practical and transparent cost sharing models for funding shared municipal service provision



Context for recommendation

See recommendations in 4.2.2 and examples provided there. To fund shared municipal services, member municipalities need reliable cost information from robust accounting tools. While the optimal cost-sharing method depends on the service type and collaboration intensity, and should be decided by the participating municipalities, it is recommended that Lithuania considers the following methods and principles.



Actions

- First, develop a standardised method to define and present costs of municipal services, to enable well-informed and transparent shared services provision and fair cost-sharing (recommendations in section 4.3.2 and 4.3.3).
- Second, using the cost data, calculate and take into account all direct and indirect service costs of shared municipal service provision (i.e. the full cost method) as a basis for cost sharing.
- Thirdly, select a model to share costs of shared services provision depending on service type and collaboration intensity (see Table 4.1 and Box 4.1):
 - Matching principle: Costs are covered based on service use by residents, ideally aligning costs with benefits.
 - Population-based cost sharing: Costs are shared based on each municipality's population, offering simplicity but potentially reducing cost control motivation.¹²
- In specific cases, consider applying the following cost sharing methods:
 - Equal share contribution: Each municipality pays an equal share. Suitable for evenly distributed benefits.
 - Ability-to-pay contributions: Based on each municipality's fiscal capacity, with wealthier municipalities paying more.
 - Hybrid model: Combines methods to suit specific shared services provision circumstances, allowing flexibility to meet diverse needs.



Actors

- Central government and municipalities.

Foster shared services provision through financial incentives by central government



Context for Action

See recommendations in section 4.2.2 and examples provided there. Central government can use various methods to incentivise shared municipal services provision. Lithuania currently lacks such financial incentives for shared services.



Actions

- In case of most demanding municipal services, establish central government grants that are targeted directly to shared services provision bodies, instead of municipalities. Modify the budget law accordingly (example in Annex D).
- Introduce a specific grant that is conditional on the collaboration and on the impact of the project. Combine funding and other support with strict impact evaluation (example in Annex D). Modify the Law on Methodology of Determination of Municipal Budget Revenue and LLSG accordingly.
 - Develop clear guidelines and criteria for collaboration-based funding to ensure fair and transparent allocation.
 - Create a support framework for small municipalities to ensure they are able to find partners for shared municipal service provision.



Actors

- Central government

Improve access to external financing to better enable joint municipal investments



Context for Action

See recommendations in section 4.2.3 and examples provided there. Creating an agency specialised in municipal and joint municipal borrowing could reduce municipal borrowing costs and interest rates after revising the fiscal rules to allow LGs to borrow more.



Actions

- Implement the recommendations on the use of public investment funds in Lithuania presented in the OECD report [“Raising Local Public Investment in Lithuania”](#) (slightly modified for this report’s purpose):
 - Establish a mechanism for joint municipal borrowing (Annex D):
 - Create an agency for pooled municipal borrowing, either owned by the municipalities or by the central government (Annex D).
 - Create a guarantee mechanism for municipal and joint municipal loans, using example for such arrangements in other countries (Annex D).
 - Avoid explicit or implicit central government guarantees on individual municipal loans.

- Clarify and establish legal provisions in budget law (fiscal rules) to better allow for municipal and joint municipal borrowing by municipalities for cooperative projects, enabling them to take advantage of economies of scale and shared risk.
- The central government could also re-lend funds to municipalities or joint municipal bodies to finance public investment.
 - This could be processed through institutions such as VIPA, which was merged into INVEGA (National promotional Institution) taking up VIPA's functions.



Actors

- Central government.

Ensure clear fiscal rules for shared municipal service provision



Context for recommendation

See recommendations in section 4.2.4 and examples provided there. If Lithuania decides to establish more shared municipal service provision, there's a need for clear fiscal regulation for municipal collaboration to avoid a situation where joint municipal bodies would be regulated with a very different rules than the member municipalities.



Actions

- Make changes and amendment in the budget law to ensure that joint municipal bodies are regulated with same rules as municipalities.
- In the budget law, make legal provisions that allow the joint municipal bodies, when they are separate legal bodies (see recommendation for joint municipal authorities in section 4), to borrow for investments.
- Establish a protocol in LLSG for treating collaborative bodies that are in severe fiscal distress (Annex D).
- In the LLSG, mandate active involvement of member municipalities in the fiscal oversight of collaborative bodies, through structured monitoring and early intervention strategies to prevent financial instability.



Actors

- Central government.

4.4.3. Institutional framework

Strengthening the role of CPMA in fostering shared municipal service provision



Context for Action

See recommendations and examples in section 4.3.1. Municipalities will need technical support and consultation to better establish shared services provision in the new frameworks. CPMA would be well positioned to act as an expert organisation to provide such support.



Actions

- Empower CPMA legally and financially to offer support to municipalities embarking on shared services provision projects. This support should include:
 - Assistance in financial matters: how to seek funding to kick-start shared services provision projects.
 - Administrative assistance: guidance on administrative procedures and regulatory compliance.
 - Technical assistance: expertise in project design, implementation, and evaluation.
- Assign CPMA to organise nationwide and local shared municipal services provision dialogue forums:
 - Facilitate dialogue and exchange of ideas and good practices among municipalities on topics related to shared municipal service provision.
- Enable CPMA to assist municipalities in planning and negotiating the specifics of founding charters or basic agreements for shared services provision projects.
 - Service cost determination and the establishment of cost-sharing mechanisms.
 - Providing templates or model agreements for founding agreements (joint municipal authorities and joint municipal companies) and contracts (host municipality arrangements, shared HR resources).
- Authorise CPMA to hire or designate project managers whose primary responsibility is to ensure that municipal collaborations are effectively transformed from concept to practice.
- Empower CPMA to actively seek and facilitate collaborations with other central government agencies, ALAL and the municipalities, enabling shared vision on utilising shared municipal services provision.



Actors

- Central government.

Establish standardised descriptions of municipal public services



Context for Action

See recommendations in section 4.3.2 and examples provided there. In order to improve the comparability of municipal service costs and service usage, Lithuania should start a reform to develop a standardised classification and description of the municipal services.



Actions

- Initiate project
 - Form steering committee: representatives from municipalities, ALAL, Statistics Lithuania, key ministries, CPMA, and other key stakeholders.
- Make research
 - Research existing classifications:
 - Example: Finnish “JHS 200” model (see Annex F).
 - Define service categories:
 - Specify what constitutes municipal services.
 - Group into sectors using COFOG classification.
- Feedback collection
 - Collect feedback through workshops, forums, public consultations, and written comments.
 - Adjust development based on feedback: refine classification categories and structures.
- Pilot testing
 - Execute pilot project:
 - Select municipalities for testing.
 - Implement pilot classification system.
 - Evaluate pilot results:
 - Analyze feedback and practical challenges.
 - Make necessary adjustments:
 - Refine classification system based on pilot outcomes.
- Implementation
 - Finalise classification system:
 - Establish a comprehensive classification system.
 - Set implementation timeline:
 - Determine national rollout schedule.
 - Train and resource municipalities:
 - Provide necessary training and resources for implementation.
- Maintenance
 - Regular updates:
 - Create a procedure for annual reviews or dedicated team for updates.



Actors

- Central government and municipalities.

Improving the quality of data and reporting/accounting methods concerning municipal costs and service use to better enable shared municipal service provision



Context for Action

See recommendations in section 4.3.3. Lithuania could markedly enhance its database on municipal service costs, inputs, outputs, and service usage. Comparable and reliable data on municipal service costs and use are critical for well-informed decision-making on public services at municipal and central government levels.



Actions

- Establish guidelines for municipalities regarding the calculation of costs associated with municipal services and enforce mandatory compliance to these regulations (see an example in Annex G).
- Develop a platform for collecting, storing, and analysing municipal service costs and usage data, ensuring standardised formats and indicators for consistency across municipalities and shared service provision units (see example in Annex F).
- Develop uniform accounting practices and mandate in the LLSG and the Accounting Law that all municipalities and joint municipal authorities adhere to these standardised practices.
- Train municipal officials and service providers on data collection, reporting and accounting standards, and data utilisation for service planning and improvement.
- Continuously evaluate and improve data collection and reporting processes, including regular reviews of data relevance, collection methods, and analysis quality, using feedback for system enhancements.
- Utilise modern IT solutions for efficient data collection, storage, and analysis, including developing or adapting software and platforms for municipal data needs.



Actors

- Central government and municipalities.

Notes

¹ The recommendations and actions presented below are also presented in the matrix with respective challenges and benefits for all recommendations (Annex C).

² An example is the Law on Regional Development which currently includes regulations governing the formation and management of the RDCs. Ideally, such general regulations on establishing shared service provision should be included in the Local Self-Government Law, leaving the Law on Regional Development to focus only on what is specific concerning the establishment of Regional Development Councils (RDCs).

³ For instance, in Finland, sectoral legal regulation has provisions for shared service provision only if it is compulsory. This approach is recommended also for Lithuania. Sector specific legal regulation is not needed for voluntary collaboration.

⁴ Joint public staff posts are job positions filled jointly by two or more municipalities.

⁵ Joint agreements on the management of official duties can establish joint posts which would take care of the most demanding municipal tasks that require demanding official decision-making by law. In other words, this is a special case of joint public post (or, in more general, a specific example of “shared HR resources”).

⁶ Under this there can be different types of shared human resources between municipalities. Typically, this is a contract-based collaboration between municipalities.

⁷ In Lithuania, according to the Law on Methodology of Determination of Municipal Budget Revenue, central government grants to municipalities consist of general purpose grant (municipal share of income tax revenue allocated using an equalisation formula) and earmarked grants (the state subsidies for delegated functions) (REPUBLIC OF LITHUANIA, 2012^[2]). Hereafter, this report will use the term “state subsidies for delegated functions” when discussing Lithuanian central government grants to municipalities for delegated functions, to align with terminology familiar in Lithuania. However, the term “central government grants” will also be used when discussing overall central government funding to municipalities. Additionally, the term “intergovernmental grants” will be used when discussing international practices. The OECD Taxonomy of Grants is provided in Annex B.

⁸ In some cases, matching and population-based cost sharing can be used also in combination.

⁹ In Finnish hospital services (obligatory municipal collaboration), the Finnish Health Care Act guided municipalities to equalise the exceptionally high patient-specific costs. If the cost of a patient exceeded from EUR 50 000 to EUR 100 000, then the rest of the cost was shared between the member municipalities on a per capita basis. This mechanism served as an effective risk management strategy, particularly beneficial for smaller municipalities, safeguarding against unforeseen or unplanned financial burdens.

¹⁰ Depending on the service, and availability of data, also other types of metrics/quantifiable data can be used (such as number of pupils, patients etc).

¹¹ In Finland, the accounting of municipalities is governed by the Accounting Act and the Municipal Act. This law applies to municipalities and joint municipal authorities. According to the Municipal Act, a municipality and a joint municipal authority are subject to accounting obligations.

¹² Depending on the service, and availability of data, also other types of metrics/quantifiable data can be used (such as number of pupils, patients etc).

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5

Establishing the framework for piloting shared municipal services provision in primary healthcare and long-term care services in Tauragė+ functional zone

The chapter provides an overview of the main challenges for PHC and LTC services in Tauragė+ functional zone, which is a voluntary initiative between the four municipalities of the area with the aim to provide an integrated response to common issues. As part of the selected areas for co-operation within the functional zone, PHC and LTC services have been selected to be piloted in partnership with the four municipalities, the MoH and MSSL. Two roadmaps are presented in the chapter to provide practical steps for policymakers and relevant stakeholders at the municipal level to pilot the services in the functional zone, and thus to improve the availability, accessibility, affordability and acceptability of PHC and LTC services.

5.1. The TAURAGĖ+ functional zone

Tauragė+ functional zone is a voluntary and bottom-up initiative that has been made by the four municipalities of the area (Tauragė district municipality, Jurbarkas district municipality, Pagėgiai district municipality and Šilalė district municipality) with the aim to provide an integrated response to common problems. The functional zone has been established by the agreement signed by the four municipalities early 2020, which has been formalised by the decisions of the municipal councils of the functional zone that approved the Development Strategy for the Tauragė+ functional zone¹, and outlined priority areas for co-operation. Among the selected areas for co-operation are the improvement of access to public services, which notably include transport, wastewater management, healthcare and social services (Tauragė district municipality, 2023^[1]). Transport was the first public service to be piloted within the functional zone since it stands as an essential prerequisite for better accessibility to services. PHC and LTC have subsequently been selected for piloting in partnership with the four municipalities, the MoH and MSSL.

5.1.1. Overview

Tauragė+ functional zone comprises four municipalities: Tauragė district municipality (37 403 inhabitants in 2022), Jurbarkas district municipality (24 688 inhabitants), Pagėgiai municipality (7 236 inhabitants) and Šilalė district municipality (21 586 inhabitants). Tauragė serves as the administrative centre. Tauragė functional zone is the smallest area in Lithuania in terms of population. The population in Tauragė functional zone decreased by 28% from 2008 to 2022, compared to the national average of -15%. In Tauragė functional zone, Šilalė district municipality experienced the most significant population drop (Statistics Lithuania, 2023^[2]).

The land area of Tauragė functional zone (4 411 km²) accounts for 6.7% of the country's total area. The Jurbarkas district municipality is the largest by area in Tauragė functional zone, covering 1507 km² (34% of the Tauragė functional zone), while Šilalė and Tauragė districts cover 27% each. The smallest is the Pagėgiai municipality at 12% of the total area. Tauragė functional zone is predominantly rural, with remote settlements in terms of geographical distance. In 2021, the population ratio between urban and rural municipalities was 43:57, lower than the national average. The population density of 20.4 inhabitants/km² in 2021 was more than two times lower than the national average.

5.1.2. Current and future challenges in PHC and LTC services in Tauragė+ functional zone

Ageing and shrinking population pressures the provision and funding of PHC and LTC services

Municipalities in Tauragė+ functional zone grapple with an ageing and shrinking population, necessitating the integration of tailored services for the elderly. There are also difficulties in hiring full-time professionals, particularly junior doctors (i.e., a qualified doctors practising between graduation and completion of specialist postgraduate training).

Increasing demand for PHC clashes with a shortage of specialist doctors and other medical staff, a lack of investment in healthcare premises and modern equipment, as well as poor quality and low access to healthcare services, causing lengthy waitlists (Tauragė district municipality, 2023^[1]). Day-care centres, significant for community health and socialization, primarily serve the physically and mentally disabled, overlooking the elderly.

Palliative care needs persist across the functional zone, and municipalities aim to shift from LTC beds in hospitals towards more outpatient and home-based services. However, this shift is still emerging, hampered by challenges in attracting skilled staff and separate funding for health and social care for meeting additional demand.

Health and social care are organised as separate, mainly because they are guided by two separate ministries (MoH and MSSL) and funded differently (Box 5.1). In reality, the line between them is blurry. Health and social care workers often share information about their patients' needs informally during home visits, but there is no official teamwork in integrated service provision at the local level. There is a clear need in the future for better integration, in both how they work and how they're organised.

Box 5.1. The current organisation and funding of healthcare and social services in Lithuania

As all municipalities in Lithuania are following the national setup, we provide the whole overview of the organisation of this setup for better understanding for future reforms in services provision in specific regions (e.g., Tauragė+ functional zone as selected for the pilots).

The current organisation of healthcare and social services in Lithuania

The Ministry of Health (MoH) and the National Health Insurance Fund (NHIF) are the main central institutions for healthcare, while municipalities have an important role in services delivery (OECD, 2018^[3]).

- The **MoH** is responsible for formulating health policy and regulations, and managing the NHIF, large hospitals and the network of subordinated institutions (e.g. the State Health Care Accreditation Agency, the State Medicine Control Agency).
- The **NHIF** purchases personal healthcare services on behalf of the insured population and provides insurance coverage to the population for health prevention, primary healthcare, specialist services, nursing and rehabilitation, reimbursement for medicines and medical devices (OECD/European Observatory on Health Systems and Policies, 2021^[4]).
- **Municipalities** play a key role in service delivery as they own a large share of primary care centres, especially polyclinics, and small-to-medium sized hospitals. Municipalities are responsible for providing PHC services (e.g. family doctors, diagnostics, preventive programs, paediatrics), as an independent function, and for providing public and secondary healthcare in certain cases laid down by law, as state-delegated functions. Municipalities also organise 45 Public Health Bureaus, which are responsible for health promotion and prevention, population health monitoring, and planning and implementing local public health programmes (OECD, 2018^[3]).

In terms of **social care services**, municipalities are responsible for the planning and provision of social services, the maintenance of their social care infrastructure and co-operation with non-governmental organisations (NGOs) (independent functions).

There is no single legislative framework nor common definition of **LTC services** in Lithuania. The MoH is responsible for health care, including geriatric services, nursing services and palliative care, while the MSSL is responsible for policies and legislation on social services and social workers (OECD, 2022^[5]). Despite public recognition of the need to develop publicly provided **home care**, LTC remain predominantly provided in residential care institutions since municipalities lack financial and human resources to implement these services at home. Lithuania is reforming healthcare and social care services to reduce fragmentation and enhance service effectiveness, especially in LTC.

The funding of healthcare and social services in Lithuania

Healthcare services receive funding through compensations provided by the NHIF. The NHIF's financial resources primarily come from contributions made by the working-age population and central government. Other funding sources for healthcare include direct payments from patients, municipalities'

own revenues, and transfers to municipalities from the central government. Municipalities fund PHC services once the NHIF reimbursement period has lapsed, such as after a patient exceeds the 120-day annual nursing care limit. It is crucial to understand that NHIF funding decisions can affect municipal services. For example, if the NHIF stops funding certain services like midwifery due to efficiency concerns, it could result in the closure of hospital units and patient transfers. Municipalities fund public and secondary healthcare services also with earmarked grants (state subsidies for delegated functions) from the Ministry of Health, as these are state-assigned functions. For home care services, the NHIF typically covers costs, excluding the integrated care project, which is financed by EU funds and the Ministry of Social Security and Labour (OECD, 2022^[6]).

Social care services are funded by a combination of transfers from the central government, municipal own revenue and by user fees, the latter depending on patient's income. Municipalities receive general purpose grants from the central government to fund general social services. They also receive earmarked state subsidies for delegated functions from the MSSL to fund social care for severely disabled adults.

The funding of **LTC services** is complex since it includes a mix of healthcare and social services. LTC funding comes from various sources: the NHIF, earmarked state subsidies for delegated functions from the MoH for healthcare services, municipal budgets, earmarked state subsidies for delegated functions from MSSL and user fees for social care services. User fees for LTC social services are defined by municipalities. The large majority of LTC funding is allocated to inpatient healthcare compared to outpatient care in Lithuania (OECD, 2022^[6]).

Source: Authors' elaboration based on (OECD, 2018^[3]; OECD/European Observatory on Health Systems and Policies, 2021^[4]; OECD, 2022^[6])

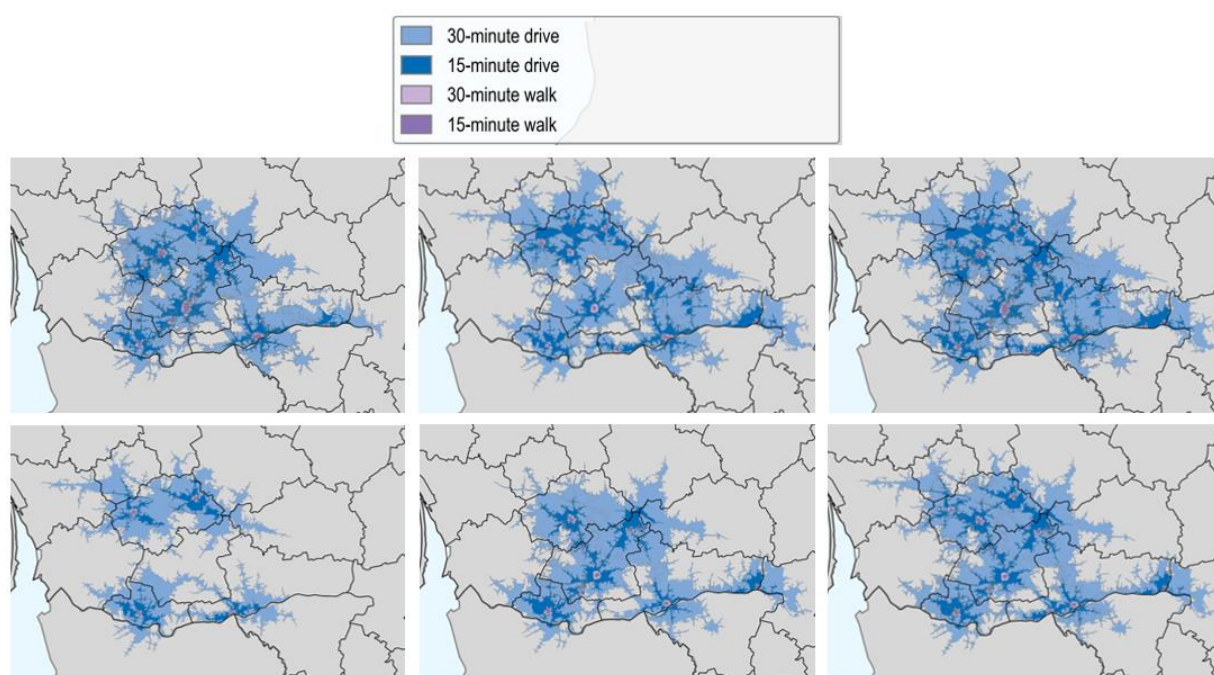
Unequal physical accessibility to PHC and LTC services in Tauragė+ functional zone

In Tauragė+ functional zone, despite a good public transportation network, the physical accessibility to primary and secondary healthcare services can be a challenge for patients due to geographical distances and fewer healthcare facilities.

Due to the above-mentioned challenges in PHC in Tauragė+ functional zone (i.e., shortage of specialist doctors and other medical staff, lack of investment in healthcare premises and modern equipment, as well as poor quality and low access to healthcare services), patients may also seek services from the private sector.

The physical accessibility of services in Tauragė+ functional zone, which depends mainly on travel time to the service units, is depicted in Figure 5.1. Both walking and driving distances are measured, showing that in public health care, the private PHC service provision complements accessibility, especially in Tauragė district municipality, whereas in the other three municipalities, the public health provision has at least as good or even better coverage than the private sector. As for the LTC, private sector provision has importance from physical accessibility perspective especially in Pagėgiai municipality and Šilalė district municipality. The maps also show that there are some specific areas in Tauragė+ functional zone which are not covered by either public or private health or LTC services. While it appears that in most of Tauragė+ functional zone, the health and LTC services can be accessed at least by 30-minute drive by car, this does not describe the situation for the people who must rely on public transportation. The driving times shown on the maps do, however, describe the potential for call taxi services².

Figure 5.1. Travel time to care in Tauragė+ functional zone: physical accessibility of PHC and LTC



Note: Private PHC units (top left panel); public PHC units (top centre panel); public and private PHC units (top right panel); private LTC units (bottom left panel); public LTC units (bottom centre panel); public and private LTC units (bottom right panel). Grey colour represents areas where healthcare/LTC facilities are far from more than 30-minute drive. Using Mapbox API enabled us to use isochrones accounting for the road network and actual typical travel times instead of straight-line distance isochrones. Using isochrones, we identify the areas reachable from a facility within a set time frame for driving or walking. Overlaying these areas with the population grid gives an estimate of population access to these services. A limitation of these indicators is potential underestimation of travel time due to excluding public transport. Also, while it is possible for the Mapbox Isochrone API to return results that account for typical traffic congestion patterns at various times of day, the methodology of this project used the 'driving' profile of the API which uses only average traffic considerations and so may underestimate traffic congestion at particular times of day.

Source: OECD elaboration based on the Mapbox Isochrone API data and 2021 population data from (Statistics Lithuania, 2023^[2]).

The share of population within specific travel durations to closest health and LTC facilities in Tauragė+ functional zone is provided in Annex D. It shows that in Tauragė+ functional zone, the proportion of the population residing in areas not more than a 30-minute drive to the nearest public health service unit varies between 96% to 98%, depending on municipality. Similarly, the population residing in areas not more than a 30-minute drive to the nearest LTC service unit varies between 88% to 95%, depending on municipality (Table 5.1). The table shows that physical accessibility for public and private health and LTC services seems best in Tauragė district municipality. While data does not include home care services³ due to unavailability, about 2.9% of older people receive social services at home and 6.2% receive at least one outpatient home nursing service in Lithuania, below OECD average of home care recipients (8.9%) (OECD, 2022^[6]).

Table 5.1. Percentage of population within specific travel durations (approximate) to closest health and LTC facilities, by car and foot

Public health care units	Jurbarkas district municipality	Pagėgiai municipality	Tauragė district municipality	Šilalė district municipality
Share of population within driving distance (15 min) from public health care units	80%	66%	72%	72%
Share of population within driving distance (30 min) from public health care units	97%	96%	98%	98%
Share of population within walking distance (15 min) from public health care units	34%	13%	17%	16%
Share of population within walking distance (30 min) from public health care units	47%	27%	53%	37%
Private health care units	Jurbarkas district municipality	Pagėgiai municipality	Tauragė district municipality	Šilalė district municipality
Share of population within driving distance (15 min) from private health care units	63%	68%	88%	63%
Share of population within driving distance (30 min) from private health care units	94%	95%	100%	99%
Share of population within walking distance (15 min) from private health care units	34%	13%	53%	26%
Share of population within walking distance (30 min) from private health care units	43%	27%	64%	30%
Public LTC units	Jurbarkas district municipality	Pagėgiai municipality	Tauragė district municipality	Šilalė district municipality
Share of population within driving distance (15 min) from public long term care units	53%	70%	85%	44%
Share of population within driving distance (30 min) from public long term care units	88%	95%	99%	95%
Share of population within walking distance (15 min) from public long term care units	6%	20%	26%	22%
Share of population within walking distance (30 min) from public long term care units	35%	28%	50%	24%
Private LTC units	Jurbarkas district municipality	Pagėgiai municipality	Tauragė district municipality	Šilalė district municipality
Share of population within driving distance (15 min) from private long term care units	37%	66%	N/A	47%
Share of population within driving distance (30 min) from private long term care units	58%	94%	62%	93%
Share of population within walking distance (15 min) from private long term care units	2%	7%	N/A	5%
Share of population within walking distance (30 min) from private long term care units	3%	27%	N/A	11%

Note: Authors' elaboration of the original data.

Source: Statistics Lithuania, Open Data, Gyventojų ir būstų surašymas 2021— Gyventojai (GRID 1km), https://open-data-ls-osp-sdg.hub.arcgis.com/datasets/80272a0f7a7e4905bc379f0ae921e5b7_1/explore?location=55.144279%2C23.902913%2C7.86, and Mapbox.

5.2. Roadmaps for piloting shared services provision in PHC and LTC services in the Tauragė+ functional zone

As part of the selected areas for co-operation within Tauragė+ functional zone, PHC and LTC have been selected to be piloted in partnership with the four municipalities, the MoH and MSSL. The piloting of these two services goes along with establishing enabling legal, institutional and fiscal frameworks for shared municipal services provision at the national level (Chapter 4). The recommendations and roadmaps presented in this section are based on the Finnish experience of shared municipal services provision (Chapter 3), data analysis, two missions carried out in Vilnius in November 2022 and Tauragė+ functional zone in February 2023 by the OECD and Finnish experts, as well as two working sessions in Tauragė+ functional zone in December 2023 and February 2024 with relevant municipal stakeholders in PHC and LTC.

5.2.1. Overview and starting points of the roadmaps

Roadmaps have been selected as a piloting tool to outline possible directions for shared services provision (IMC as a possible instrument) in order to improve availability, accessibility, affordability and acceptability of PHC and LTC services in the Tauragė+ functional zone (Box 5.2), as well as practical steps to pilot PHC and LTC in the functional zone.

Box 5.2. Elements of access to PHC and LTC services

In general, accessibility encompasses three fundamental aspects: availability, affordability, and physical accessibility (Thiede, Akweongo and McIntyre, 2007^[7]; Campbell, Roland and Buetow, 2000^[8]; Levesque, Harris and Russell, 2013^[9]).

Availability of services refers to the presence and availability of LTC services within a given geographic area. It involves having an adequate number of care facilities, home care providers, and community-based services to meet the needs of the population.

Affordability covers the financial aspect of accessing LTC services. It involves the consideration of costs associated with care, including fees for residential facilities, in-home care services, medical equipment, medications, and related expenses. The affordability of LTC services is essential to ensure that individuals can access the care they need without facing excessive financial burden. It also consists of the public spending considerations on the municipal or central government side.

Physical accessibility refers to the ease with which individuals can physically reach and utilize LTC services. It involves factors such as geographical proximity of care facilities, transportation options, availability of specialized equipment, and accommodations for individuals with disabilities or mobility limitations. Ensuring accessibility enables individuals to access services conveniently and without barriers.

Source: (Campbell and Fuhr, 2004^[10]; Thiede, Akweongo and McIntyre, 2007^[7]; Levesque, Harris and Russell, 2013^[9])

The roadmaps on PHC and LTC, presented in this section and developed for piloting, are in line with the views expressed by the municipal representatives and PHC and LTC practitioners of the Tauragė+ functional zone. The municipal representatives demonstrated interests in municipal shared services provision to improve the delivery of PHC and LTC services, to increase the quality of the services, to use resources more efficiently (cost-effectively) and to provide better access to these services to citizens.

The two roadmaps are also in line with long-term national policy objectives, particularly in the health and social sectors where the Lithuanian government has started to plan a reform of municipal service provision.

More specifically, the roadmaps are based on:

- The experts' views about the discussions hold with municipalities and ministries during the two OECD fact-finding missions and on-site visits (November 2022 and February 2023).
- The results of the Logical Framework Analysis (LFA) group works in Pagėgiai and Tauragė (December 2023 and February 2024).
- Data received from municipalities, the NHIF on PHC and LTC.
- The relevant documents provided.
- The experts' knowledge and experience of shared municipal services provision in health and social services, especially in Finland.

Table 5.2 lists the suggested pilot actions and the main sources to elaborate them.

Table 5.2. Summary of the recommended pilot actions and main sources of inputs

Recommended pilot actions	Sources				
	Fact finding missions	Logical framework analysis	Data analysis	Documents	Expert experience
Joint pilot action for PHC & LTC					
Establishing reliable and timely database	x		x		x
Recommended pilot actions for PHC					
PHC 1: Ensuring a fair balance between primary and secondary healthcare	x	x	x		x
PHC 2: Promoting adequate staff and appropriate staff structure	x	x	x	x	x
PHC 3: Ensuring efficient PHC	x		x		x
PHC 4: Establishing Integrated PHC Centres	x			x	x
PHC 5: Improving health and welfare promotion	x	x	x	x	x
Recommended pilot actions for LTC					
LTC 1: Improving staff and HR conditions	x	x	x	x	x
LTC 2: Strengthening home care services	x	x	x	x	x
LTC 3: Ensuring a balanced care between hospitals and service housing	x	x	x	x	x
LTC 4: Providing better access to day care centres	x				

Note: Service housing is a housing unit which provides services according to the needs of the resident.

Source: Experts' elaboration.

5.2.2. Recommended actions for piloting PHC and LTC in Tauragė+ functional zone

Pilot action for both PHC and LTC

Establishing reliable and timely database

Current situation: Data on services and functions is insufficient for planning, developing, managing, providing and evaluating PHC and LTC services according to the needs, efficiency and cost-effectiveness.

Objective: Improving and harmonising the database to be able to plan, manage and evaluate PHC and LTC services.

Activities:

1. Agree on the common minimum PHC and LTC dataset for the region.
2. Utilise the dataset for joint planning of services and cost-sharing.

A minimum dataset for planning/developing purposes is outlined in Annex A for PHC and LTC. A part of it is needed for the situation analysis, a part for annual or quarterly follow-up, and a part for impact evaluation.

For the management of services, detailed data is needed on services, such as human resources, visits, patients treated, hospital/service housing days, waiting lists, costs and financial data if services are shared between municipalities.

Recommended forms of shared services provision:

- Joint development project by municipalities in official capacity

Please note that this activity is common to all objectives. It is therefore not repeated in the following pilot actions.

Recommended pilot actions for PHC

Pilot actions PHC 1: Ensuring a fair balance between primary and secondary healthcare

Current situation: High level of avoidable hospitalisation and unnecessary referrals to hospitals indicate inappropriate and inefficient use of healthcare resources.

Objective: Improving the balance between primary and secondary healthcare to reduce waiting time and shortage of PHC services in hospitals.

Activities:

1. Reduce unnecessary referrals to hospitals
2. Streamline service processes and provision
3. Develop mobile services (improved transport services and roving service-buses)
4. Reform service network (location of joint health stations)
5. Establish of a joint health centre (including several health stations)

Recommended forms of shared services provision:

- Joint development projects
- Contractual cooperation
- Joint municipal authority and other options

Pilot actions PHC 2: Promoting adequate staff and appropriate staff structure

Current situation: Shortage of qualified staff, long waiting-times for PHC services.

Objective: Providing sufficient staff and appropriate staff structure to attract and retain qualified personnel in order to reduce waiting time for PHC.

Activities:

1. Improve sharing of health care resources (physicians, nurses), e.g. joint posts
2. Streamline service processes and provision
3. Re-evaluate incentives (monetary & other) and working conditions

Recommended forms of shared services provision:

- Joint development projects in official capacity
- Contractual cooperation

The most convenient solution to share resources would be to have four municipalities as one service area. This might be a long-term objective.

Municipalities can enter in contractual arrangements to provide PHC services to residents of the neighbouring municipalities. To be able to operate, accurate data on service costs must be available.

Pilot actions PHC 3 : Ensuring efficient PHC

Current situation: Moderate per capita costs combined with relatively high costs per patient underline the need for a more in-depth assessment of the functioning, organisation and performance (costs and outcomes) of PHC .

Objective: Improving performance and efficiency of PHC to better allocate and use available PHC services.

Activities:

1. Improve cross-border use of services
2. Improve sharing of health care resources (physicians, nurses) (e.g., joint planning and management of human resources)
3. Reduce unnecessary referrals to hospitals
4. Critically assess activities, service processes and performance to improve productivity and economic efficiency
5. Streamline service processes and provision

Recommended forms of shared services provision:

- Joint development (i.e., municipalities can undertake joint development projects or programmes)
- Inter-municipal evaluation (i.e., municipalities can compare/evaluate services in cooperation)
- Contractual cooperation
- Joint municipal authority

Pilot actions PHC 4: Establishing Integrated PHC Centres

Current situation: The need for PHC services is growing, but the provision of services is deemed insufficient. This is also reflected in the challenge of recruiting full-time qualified staff and long waiting lists.

Objective: Improving and providing more equal availability and accessibility of PHC services.

Activities:

1. Develop mobile services (improved transport services, minibuses touring municipalities in the region, bringing selected services to people living in remote areas)
2. Reform the service network (location of joint health stations)
3. Establish joint health stations
4. Establish a joint health centre (including several health stations)

Recommended forms of shared services provision:

- Contractual cooperation
- Joint municipal authority/company & other options

Pilot actions PHC 5: Improving the health and welfare promotion

Current situation: Treatable and avoidable mortality as well as avoidable hospitalisation are well above the national levels.

Objective: Improving the effectiveness and efficiency of health and welfare promotion to reduce treatable and avoidable mortality.

Activities:

1. Critically evaluate the effectiveness of existing health and welfare promotion activities and programs
2. Launch effective regional projects to promote health and well-being of the population

Recommended forms of shared services provision:

- Shared municipal evaluation & projects
- Joint committee
- Pooling resources

Potential impact and timing of PHC pilot actions

Figure 5.2 shows an assessment of the impact of the proposed PHC pilot actions on the availability and accessibility of services, as well as the capacity to address urgency.

Figure 5.2. Estimate of potential pilot actions for improving accessibility, availability and easiness to implement urgency in PHC

"Great" potential for improving availability / accessibility		1	4 1 2	1 A fair balance between primary & secondary care 2 1. Establishment of a joint health centre 3 2. Streamlining of service processes 4 3. Development of mobile services 5 4. Reform of service network 5. Reducing unnecessary referrals to hospitals
"Moderate" potential for improving availability / accessibility		5 5 2 2 3	1	1 Adequate staffing & staffing structure 1. Resource sharing (physicians, nurses) - joint posts 2 2. Streamlining of service processes 1 Efficient Primary Health Care 1. Cross-border use of services 2 2. Resource sharing (physicians, nurses) - joint posts 3 3. Streamlining of service processes 4 4. Assessment of activities, processes & performance to improve productivity and economic efficiency 5 5. Reducing unnecessary referrals to hospitals Integrated Primary Health Care Centres 1 1. Establishment of joint health stations 2 2. Establishment of a joint health centre 3 3. Development of mobile services 4 4. Reform of service network (location of joint health stations) 4 Health & welfare promotion 1 1. Critical evaluation of the effectiveness of existing activities and projects 2 2. Joint regional projects on health and well-being promotion
Mostly economic benefits		4 4	1 2	
	Objectives to be prioritised to be launched ASAP	Urgent objectives for which action could be launched in 2024	Objectives to be launched 2025-	

Source: Experts' elaboration.

Recommended pilot actions for LTC

Pilot actions LTC 1: Improving staff and HR conditions

Current situation: Shortage of qualified staff, long waiting times, especially to home care and service housing⁴.

Objective: Improving competitive working conditions and salary pattern to attract and retain qualified personnel for LTC.

Activities:

1. Develop joint development programme on better working conditions
2. Delegate responsibilities to nurses
3. Strengthen teamwork
4. Organise training to become more competitive on recruiting and retaining qualified staff

Recommended forms and actions for shared services provision:

- Joint development (i.e., municipalities can undertake joint development projects or programmes)
- Avoid competition between municipalities in the region

The easiest solution to share resources would be to have four municipalities as one service area. However, this might be a long-term objective.

Municipalities can enter in contractual arrangements to provide home care and service housing services to residents of the neighbouring municipalities. To be able to operate, accurate data on services costs must be available.

Pilot actions LTC 2: Strengthening home care services

Current situation: Insufficient services, long waiting lists, fragmented service provision system.

- There is a pilot to integrate health and social services in LTC in Tauragė+ functional zone.
- A needs assessment rather than the estimation of the demand is crucial to utilise an agreed service package.

Objective: Improving home care service structures to reduce waiting lists and the shortage of LTC supply.

Activities:

1. Increase resources:
 - a. Municipal staff, resources sharing, opening the market for private/NGOs service providers.
 - b. Service voucher of defined euro values for home care services is a good practical tool.
2. Improve coordination between health and social services (e.g., one leadership, pooling resources).
3. Enable use of services across municipal borders, contractual cooperation.
4. “Hospital at home” (i.e., concept where nurses come to the patient’s home to do certain medical procedures which normally requires hospitalisation). This is cheaper than treatment in a hospital and more patient-friendly to get iv-drugs or special medications for severe pain of cancer patients. This service could be developed for the whole Tauragė area.

Recommended forms of shared services provision:

- Municipality
- Contractual cooperation
- Joint provider unit covering health and social services within municipality and/or across municipalities

Pilot actions LTC 3: Ensuring a balanced care between hospitals and service housing

Current situation: 24/7 care is hospital-oriented and costly in social institutions.

Objective: Shifting to more service-housing-oriented system to rationalise costs related to social services.

Activities:

1. Analyse the population trends and service needs
2. Assess the hospital and service house network, scope and service network
3. Analyse and compare costs (i.e., hospital vs. service housing vs. home care vs. support to care takers; public vs. private)
4. Invest in service houses
5. Only in exceptional cases, it is practical, possible or cost-effective to try to modify old hospitals or other institutions to serve as modern and friendly service housing units/homes

Recommended forms of shared services provision:

- Municipality
- NGOs
- Private companies
- Joint municipal authority/company

Pilot actions LTC 4: Providing better access to day care centres

Current situation: The demand and supply of services is unbalanced.

Objective: Improving access to day care centres to better balance access to LTC.

Activities:

1. Enable use of services across municipal borders through contractual co-operation
2. Organise joint transportation services

Recommended forms of shared services provision:

- Contractual co-operation and/or establishment of jointly operated facilities

Potential impact and timing of LTC pilot actions

Figure 5.3 shows an assessment of the impact of the proposed LTC pilot actions on the availability and accessibility of services, as well as the capacity to address urgency.

Figure 5.3. Estimate of potential pilot actions for improving accessibility, availability and easiness to implement urgency in LTC

"Strong" potential for improving availability / accessibility	2			1	Reliable and timely data base
"Moderate" potential for improving availability / accessibility	5	3	4	2	Improved staffing and HR conditions
Substantial / Mostly economic benefits	1		4	3	Improved home care services
				4	Balanced care between hospitals and service housing
				5	Improved access to day care centers
	Objectives to be prioritised to be launched ASAP	Urgent objectives for which action could be launched in 2024	Objectives to be launched 2025-		

Source: Experts' elaboration.

Next steps in implementing pilot projects for PHC and LTC the Tauragė+ functional zone

The recommended pilot actions can be implemented in a variety of ways. Possible timetable is described in Figure 5.4 based on experts' experience in Finland.

It is assumed that municipalities have set up the appropriate co-ordination mechanisms and bodies to lead the pilot projects and that they have defined clear roles and responsibilities for the different stakeholders involved, as well as the principles of decision-making and financing.

PHASE I: Validating the database to support informed decision-making

1. Consolidating the database, reassessing the baseline and anticipating service needs by year 2030.

PHASE II: Defining key elements on projects to be implemented

1. Reassessing and confirming the project objectives (general, PHC and LTC specific objectives).
2. Selecting and deciding the projects to be implemented in PHC and LTC.
3. Defining the targeted state of services provision (including the range of services, principles of services network) and service mix for PHC and LTC in year 2030.

PHASE III: Determining the governance model and funding

1. Defining the governance model (e.g., contractual co-operation, joint municipal authority)
2. Choosing the most appropriate funding model (e.g., principles of cost sharing between municipalities)

PHASE IV: Consulting stakeholders and making decisions

1. Consulting relevant stakeholders on proposed pilot actions
2. Deciding (by municipalities) on the implementation of co-operation
3. Deciding on the funding model between municipalities (i.e., principles of cost-sharing between municipalities)

PHASE V: Implementing

1. Establishing a body for shared municipal services provision
2. Implementing the recommended pilot actions
3. Monitoring impact evaluation

Figure 5.4. Possible timetable for implementing the next phases of the pilot actions

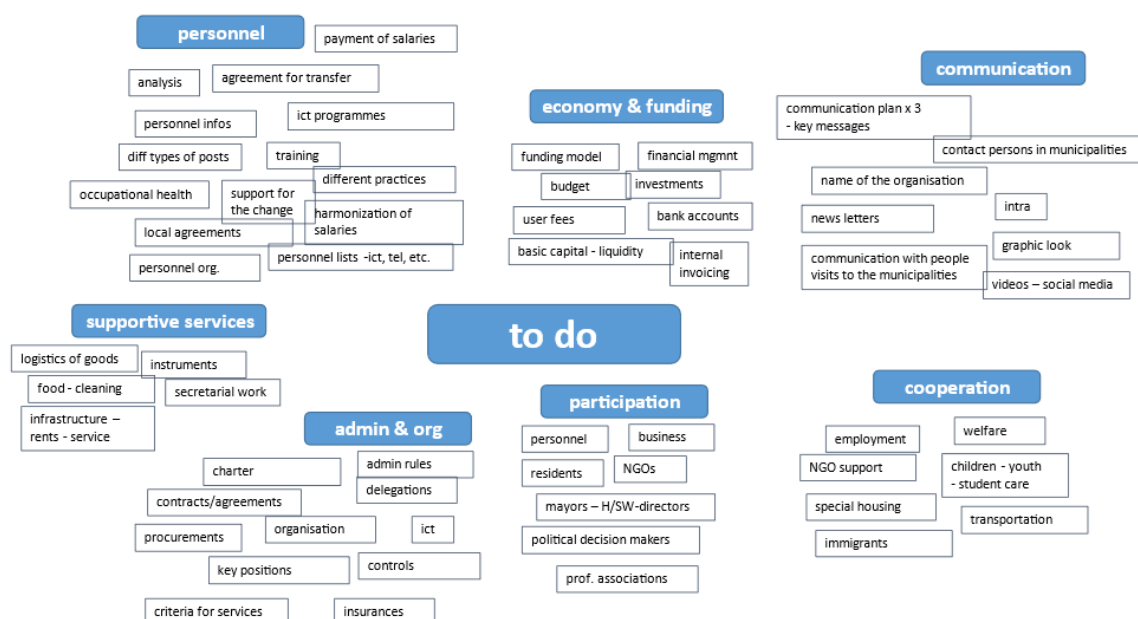
	N												N+1	N+2, ...
	3	4	5	6	7	8	9	10	11	12	1-12	1-12	1-12	1-12
PHASE 0 – Validation of the data base to support informed decision-making														
1 Consolidate the data base, reassessing the baseline and anticipating service needs by year 20xx														
PHASE I – Decisions on projects to be implemented														
1 Reassess and confirm the project objectives														
2 Select and decide the projects to be implemented														
3 Define the target state of service provision														
PHASE II - Decisions on the governance model and funding														
1 Governance model (contractual cooperation, joint municipal authority, etc.)														
2 Funding model (principles of cost sharing between municipalities)														
PHASE III – Consultation of stakeholders and decision taking														
1 Consultation of relevant stakeholders on proposed pilot projects														
2 Decisions by municipalities on the implementation of cooperation														
3 Funding model (principles of cost sharing between municipalities)														
PHASE IV – Implementation														
1 Setting up an intermunicipal cooperation body/bodies														
2 Implementation starts														
3 Implementation of monitoring impact evaluation														
IF APPROPRIATE														
Changes needed in legislation														
Changes needed to national funding formula (access to funding) for services														

Source: Experts' elaboration.

The implementation of some of the above recommended pilots may also require adjustments in legislation and in funding and financing system of health and LTC services at national level (Chapter 4).

Figure 5.5 illustrates the challenges that need to be addressed when shared services provision takes the form of a joint municipal authority. The challenges for other forms of cooperation are more limited, although the main ones can be found in the figure.

Figure 5.5. Issues to be addressed to create a joint municipal authority



Source: Experts' elaboration based on Integrated Health and Social Services in North-Karelia (Finland).

The recommended pilot actions for PHC and LTC are based on the Finnish experience on shared municipal services provision and a diagnosis of the current demand, supply, challenges and strengths of these two services within Tauragė+ functional zone at the time of writing. Local conditions and needs, as well as national frameworks can evolve, which would require to adjust pilot actions with the new situation. The implementation process must therefore be flexible and adaptable to changing environment and priorities. The lessons learned and progress done with the pilots in PHC and LTC in Tauragė+ functional zone could also, in turn, inform the recommendations and action plan described in Chapter 4 to further enable legal, institutional and fiscal frameworks for shared municipal services provision at the national level.

Notes

¹ The Development Strategy for the Tauragė+ functional zone was approved by the Tauragė district municipal Council Decision No 1-99 of 25 March 2020, the Jurbarkas district municipal Council Decision No T2-66 of 26 March 2020, the Šilalė district municipal Council Decision No T1-100 of 3 April 2020 and the Pagėgiai municipal Council Decision No T-51 of 23 April 2020. The Strategy shall be implemented in accordance with commonly formulated priorities through action planning not limited to municipal administrative boundaries. In 2021, by municipal decision, the Public Enterprise "Green Region" was established to coordinate joint actions (Tauragė district municipality, 2023^[1]).

² The Mapbox Isochrone API provides isochrone polygons from a facility using its geographical coordinates as inputs for time ranges up to 60 minutes for three modes of transport: driving, cycling and walking, see

<https://docs.mapbox.com/api/navigation/isochrone/>. Access to the Mapbox API was granted through the Development Data Partnership (<https://datapartnership.org/>).

³ Since 2013, integrated home care is provided by a team of social services and personal health care professionals (i.e., a social worker and his/her assistants, a nurse and his/her assistants, and a rehabilitation specialist), whose aim is to identify a person's need for social care and home care services, to organise and provide appropriate services (OECD, 2022^[6]).

⁴ Service housing is a housing unit which provides services according to the needs of the resident.

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Annex A. Recommended minimum dataset for planning and follow-up PHC and LTC services

Table A A.1. Recommended minimum dataset for planning and follow-up PHC services

Categories	Minimum data to be included
Population	
Population	Age-groups 0-14; 15-64; 65-74, 75-84; 85+ Years 2024 – 2030 – 2035 – 2040
Health and performance	<i>Data used for baseline and impact evaluation</i>
Health and performance	Life-expectancy at birth, years Life-expectancy at 35, years Avoidable mortality, all causes, per 100 000 • Treatable mortality • Preventable mortality Avoidable hospitalisation, per 100 000 aged 15+ Referrals to hospital care from PHC, patients
Human resources (incl. gender)	<i>To be collected separately for public and private sector</i>
Number of professionals working in PHC (full-time equivalent)	Doctors • Specialist doctors • Family doctors Dentists Nurses & midwives • Nurses • Midwives Other staff Total staff
Number of professionals in PHC (per 1000 population)	Doctors • Specialist doctors • Family doctors Dentists Nurses & midwives • Nurses • Midwives Other staff Total staff
Services provision	<i>To be collected separately for public and private sector</i>
Number of services (visits) provided	Emergency services provided by a family physician Elective services provided by a family physician Elective services provided by a specialist Services provided by a dentist Number of services provided by non-physicians Total number of physician services provided (family physicians + specialists)
Number of patients treated	Emergency patients treated by a family physician Elective patients treated by a family physician Elective patients treated by a specialist

	Patients treated by a dentist Number of patients treated by non-physicians Total number of patients treated (family physicians + specialists)
Waiting time	<i>To be collected separately for public and private sector</i>
Waiting time	Average waiting time for admission (days): • Elective patients treated by a family physician • Elective patients treated by a specialist • Patients treated by a dentist • Patients treated by non-physicians
Costs and financing	<i>To be collected separately for public and private sector</i>
Total costs (euros)	Services provided by family physicians Services provided by specialists Services provided by dentists Services provided by non-physicians Other costs (patients treated by mental health professionals) Total costs
Cost per capita (euros)	Services provided by family physicians Services provided by specialists Services provided by dentists Services provided by non-physicians Other costs (patients treated by mental health professionals) Total costs
Cost per patient treated (euros)	Services provided by family physicians Services provided by specialists Services provided by dentists Services provided by non-physicians Other costs (patients treated by mental health professionals) Total costs
Cost per visit (euros)	Services provided by family physicians Services provided by specialists Services provided by dentists Services provided by non-physicians Other costs (patients treated by mental health professionals) Total costs
Total financing (euros)	Services provided by family physicians Services provided by specialists Services provided by dentists Services provided by non-physicians Other costs (patients treated by mental health professionals) Total costs

Source: Experts' elaboration

Table A A.2. Recommended minimum dataset for planning and follow-up PHC services

Categories	Minimum data to be included
Population	
Population	Age-groups 0-14; 15-64; 65-74, 75-84; 85+ Years 2024 – 2030 – 2035 – 2040
Human resources (incl. gender)	<i>To be collected separately for public and private sector</i>
Number of professionals working in home care (health & social) (full-time equivalent)	Doctors Nurses Other health professionals Social workers Other staff Total
Human resources per 1000 population aged 65+ or 75+ (depending on which is more relevant to local circumstances)	Doctors Nurses Other health professionals Social workers Other staff Total
LTC services provision for population 75+	<i>To be collected separately for public and private sector</i>
People aged 75+ living at home	Age-groups: 75-84; 85+ • Number of people living at home • People living alone at home Household-dwelling-units with one person aged 75 and over, as % of household-dwelling-units with persons of same age
Number of people aged 75+ receiving following services	Ordinary sheltered housing (service housing) (i.e. service homes with day-time services) Sheltered housing with 24-hour assistance Institutional care • Secondary care hospitals • Primary health care institutions • Social welfare institutions Receiving regular home care (i.e. health and/or social) Receiving support services (e.g. meals, personal hygiene, cleaning, shopping, etc.) Receiving support for informal care
Number of home care visits in a year	Ordinary sheltered housing (service housing) (i.e. service homes with day-time services) Sheltered housing with 24-hour assistance Institutional care • Secondary care hospitals • Primary health care institutions • Social welfare institutions Receiving regular home care (i.e. health and/or social) Receiving support services (e.g. meals, personal hygiene, cleaning, shopping, etc.) Receiving support for informal care
Number of LTC hospital days in a year	By health care professionals By social care professionals
Service network	<i>To be collected separately for public and private sector</i>
Service network	Number of hospital beds and places for LTC residents • hospital beds for LTC patients/clients (secondary care) • hospital beds for LTC patients/clients (primary health care) • places for LTC residents (social institutions) • places for LTC residents (sheltered housing 24/7) • places for LTC residents (other service housing)
Waiting time	<i>To be collected separately for public and private sector</i>
Waiting time	Average waiting time for admission (days) • Institutional LTC

	• Sheltered housing with 24-hour assistance • Other service housing options • Home care (health & social)
Costs and financing	<i>To be collected separately for public and private sector</i>
Total costs of services (euros)	Long-term care (hospital day) Sheltered housing with 24-hour assistance Other service housing options Home care visit • by health professionals • by social care professionals Total costs
Cost per capita (75+) (euros)	Long-term care (hospital day) Sheltered housing with 24-hour assistance Other service housing options Home care visit • by health professionals • by social care professionals Total costs
Unit costs of services (euros)	Long-term care (hospital day) Sheltered housing with 24-hour assistance Other service housing options Home care visit • by health professionals • by social care professionals Total costs
Total financing (euros)	Long-term care (hospital day) Sheltered housing with 24-hour assistance Other service housing options Home care visit • by health professionals • by social care professionals Total costs

Source: Experts' elaboration

Annex B. Central government funding of municipalities in OECD countries

Transfer systems¹ form an important element of subnational government financing because they can help ensure that different subnational governments are able to provide at least the minimum acceptable level of services. In general, transfers are used to reduce fiscal disparities at two levels a) between central government and subnational government (vertical fiscal gap), and b) between subnational governments (horizontal fiscal gap). Vertical fiscal gaps can be diminished by paying lump sum transfers to subnational governments. Horizontal fiscal gaps are usually tackled with equalisation systems, which are based on indicators and formulas that take into account differences between subnational governments in tax bases (tax base equalisation) and in service needs and special circumstances (expenditure equalisation).

A well-working transfer system ensures that subnational governments can provide comparable level of public services with comparable tax rates. Comparability is important mainly for two reasons: first, the central government can better monitor subnational governments using indicators on service availability and quality, and second, local residents can compare the local public services and tax rates of their own jurisdiction to situations in neighbouring jurisdictions.

To classify the different types of transfers, the OECD Fiscal Federalism Network developed a taxonomy of grants. The main separation is between earmarked (conditional) and non-earmarked (unconditional) grants. Subnational governments must use earmarked grants or the conditional grants for a specific purpose whereas they can spend non-earmarked or unconditional grants freely. Both main types of transfers are further divided into mandatory and discretionary transfers. Mandatory transfers are defined in law, whereas discretionary transfers do not have such clear basis. Discretionary grants are generally not recommended in wider use, as they may make the transfer system more complex and less transparent, making it more likely to suffer from lobbying and corruption practices. The discretionary grants can be divided into grants for capital expenditure and grants for current expenditure.

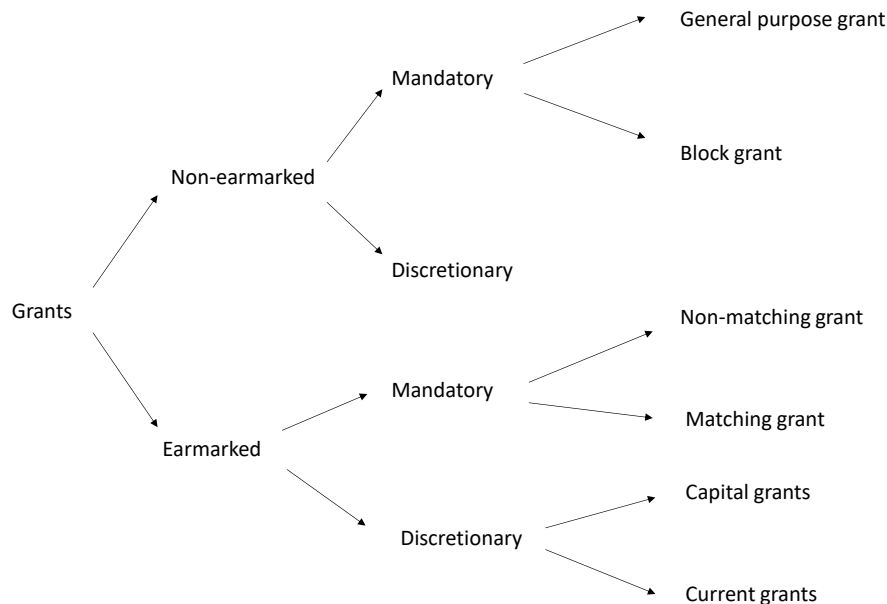
Earmarked grants may be further subdivided into matching and non-matching grants. Earmarked grants aim to incentivise municipalities to spend funds on specific projects. Such grants are typically used by central governments to internalise externalities, i.e., to ensure that the recipient municipality or region will also take into account the effects on other jurisdictions when making investment decisions. Matching grants (i.e. a certain percentage of subnational government expenditure in a specific service, say in education) can be useful especially when a new public service is launched. Using matching grants more widely and for a longer time is generally not advisable, because matching grants have been shown to have a tendency to boost spending growth, which can jeopardise the long-term sustainability of public finances (creating or aggravating issues related to higher public deficits, public debt, tax rates, etc.). Earmarked grants, especially matching grants, can be problematic for municipalities with low levels of own revenue, especially if the conditional grant is a matching grant, i.e., an own funding share of the recipient municipality is required. This is because for the municipalities with weak tax bases it can be hard to raise enough own revenue to cover the self-financing shares.

The non-earmarked (unconditional) grants can be divided into block grants and general purpose grants. Block grants and general purpose grants are typically defined using formulae, and they are usually recommended for funding subnational governments because they come with no strings attached and allow subnational governments a wider margin of manoeuvre to allocate the resources according to local needs and circumstances. Non-earmarked grants give more decision-making freedom for regions and municipalities to use the funds. There are three main types of such transfers: general per capita grants, revenue equalisation grants, and expenditure equalisation grants. A general per capita grant provides the same amount of revenue per capita to each municipality.

The problem with such general per capita grant is that it does not consider the (tax) revenue capacity or the expenditure needs of the municipality. Equalisation grants have been developed for that purpose. The revenue equalisation grants assist municipalities whose tax capacity is lower than some standard level, usually the average. Expenditure equalising grants aim to take into account the service needs (e.g., number of students, demographics, length of roads) and circumstantial factors (e.g., population, population density, remoteness) of expenditures to ensure that every municipality can provide at least a minimum acceptable level of service with a comparable tax rate. Vertical equalisation arrangements refer to transfers from the central to subnational governments, whereas horizontal equalisation arrangements constitute transfers from wealthier jurisdictions to poorer ones, a practice also known as the “Robin Hood principle”.

OECD countries have most often opted for vertical fiscal equalisation transfers alone (e.g., Australia, Canada, Japan) or for a combination of the horizontal and vertical approaches (e.g., Finland, Germany, Norway, Spain, Sweden and Switzerland).

Figure A B.1. The OECD taxonomy of grants to subnational governments



Source: (OECD, 2019^[1])

References

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Note

- ¹ Annex B is an excerpt from (Moisio and Bover-Vidal, 2023^[2])

Annex C. Summary of legal, fiscal and institutional shared services provision framework recommendations

Table A C.1. Legal, fiscal and institutional shared services provision framework recommendations

Recommendations	Step 1: Existing situation	Step 2: Suggested reforms	Step 3: Key actions suggested (see: 4.4 Action Plan)	Benefits and challenges of suggested reforms	Responsible stakeholders
LEGAL FRAMEWORK (see Chapter 4 for details)					
4.1.1. Establish a clear legal base and for shared services provision and concentrate the core regulations concerning the establishment and governance of municipal collaboration within the Law on Local Self-Government (LLSG). 4.1.2. Specify authorised forms of shared services provision with more precision.	- The regulation of shared services provision is governed by multiple laws, resulting in a fragmented legal framework spread across various statutes (Chapter 2, Figure 2.5). - Article 5 of the LLSG allows three forms of shared services provision. These alternatives are general and leave much of the practical aspects of establishing shared services provision in doubt. - Overall, the current legal provisions fail to	- Concentrate the key legal provisions of shared services provision within the Law on Local Self-Government (LLSG). - Add complementary details in specific regulations within sectoral laws as needed.	- Utilise the review of the current legal regulation made in this report, making sure that the mapping made in Figure 2.4 covers all existing relevant legal provisions for shared service provision. - Start the legislative drafting for updating the LLSG to cover the gaps of legal provisions identified in this report. - Prepare a separate chapter in the LLSG that provides legal provisions for shared services provision for (see recommendations made in chapter 4.1.2): The forms of shared municipal services provision. - The content of Founding Charter or basic agreement of shared service provision body. - Decision-making bodies of shared services provision bodies.	Benefits: - Simplifies the legal framework for establishing shared service provision; - Enhances legal clarity; - Facilitates the process for municipalities to engage in shared municipal services provision. - Enables municipalities to form both the soft and the more advanced cooperation in different sectors and for various purposes; - Improves transparency of shared services provision;	Central government level.

	address the key practical issues involved in the establishment and operation of shared municipal services.		▪ Withdrawal from collaboration. ▪ Resolution of disputes. • Abolish the three forms of shared service provision currently mentioned in the LLSG. • Make sure that LLSG contains all the core legal regulation of shared municipal services provision and that the sectoral laws refer to it. Only in rare specific cases allow sectoral or other legislation contain legal provisions on municipal collaborative arrangements. • Alter the other legislations (see the first step in this list of Actions) currently regulating shared services provision by reducing the provisions which have been moved to LLSG to avoid overlapping regulation.	▪ Provides flexibility and autonomy for municipalities to organise shared services provision based on local context and needs. Challenges: ▪ Amending LLSG and other laws may take time.	
4.1.3. Develop a clear legal base for municipal pilots	▪ Currently, there is no specific or general laws for public sector experiments in Lithuania.	▪ Establish a clear legal basis for municipal trials/pilots. ▪ Consider establishing a specific Act for public sector piloting schemes. ▪ Strengthen the capacity of municipal staff to conduct pilots.	• Establish a specific Piloting Act for public sector pilot schemes or introduce specific statutory provisions and/or exemption clauses in existing laws in Lithuania that allow for trials and piloting within the public sector: ○ Establish legal provisions that allow temporarily relaxing existing legal provisions for the pilot experiment (e.g. flexibility in staffing, use of central government grants, tax revenue). ○ Establish legal provision that ensures funding and resources to conduct pilots; • Strengthen the capacity of municipal staff to conduct pilots: ○ Develop and implement a comprehensive guide on the legal aspects of conducting municipal pilots: ▪ Definitions of different types of experiments. ▪ How to initiate and carry out a pilot experiment (applications and funding). ▪ How to evaluate the impacts of pilot experiments. ▪ How to utilise the information provided by	Benefits: ▪ Providing a systematic legal framework for public sector piloting will enable and incentivise municipal experiments. ▪ Adding flexibility to preparing reforms. ▪ Boosting the culture of cooperation between municipalities. Challenges: ▪ Enacting a law on experiment may take time. ▪ Municipal pilots are dependent on local context and needs.	Central government

			the pilots. ○ Provide training to municipal staff on the legal and aspects of municipal pilots on the above-mentioned aspects. ○ Establish an expert network on public sector piloting, consisting of legal experts, researchers, administrators in central government and municipalities, to promote the exchange of knowledge and good practices to carry out successful pilots. ▪ Organising annual thematic conferences on public sector piloting. ▪ Creating a website “experimentalLithuania.lt” to publish practical support for piloting.		
FISCAL FRAMEWORK (see section 4.2 for details)					
4.2.1. Create an enabling funding model to encourage shared municipal service provision	• Nearly 90% of municipal funding in Lithuania is derived from central government grants, with approximately 36% of this funding being earmarked. • The earmarked grants for delegated functions form an obstacle for cross-sectoral shared services provision initiatives as they complexify administrative procedures. • The requirement to return unused funding weakens incentive for municipalities to engage in shared services provision for cost savings	• Continue strengthening municipal fiscal autonomy by reducing their reliance on central government grants and allowing them to retain a greater share of locally generated revenue. • Reduce the use of earmarked grants (i.e. the state subsidies for delegated functions). • Provide temporary financial assistance to cover initial costs associated with establishing joint services or projects.	• Enhance municipal revenue autonomy: ○ Implement policy changes to allow municipalities more control over local revenue, reducing reliance on central government grants. • Reform the central government grant system: ○ Revise the Law on Methodology of Determination of Municipal Budget Revenue and other relevant legal provisions for municipal revenue to prioritise general grants over earmarked grants (the state subsidies for delegated functions), giving municipalities flexibility in resource allocation and promoting shared services provision initiatives. • Enable savings retention from shared municipal service provision: ○ Modify budget law to permit municipalities to keep any savings made from shared municipal service provision. • Initiate financial support for shared municipal service provision: ○ Provide financial assistance to	Benefits: • Increased municipal fiscal autonomy and more flexible use of funds; • Supporting resource allocation that considers the local needs and circumstances; • Promoting shared municipal services provision developed through bottom-up initiatives and needs; • Encouraging efficiency improvements and cost reduction. Challenges: • Strengthening municipal fiscal autonomy is a long-term process involving several ministries.	Central government

	purposes. • This structure constrains municipal fiscal autonomy, potentially dampening the motivation for bottom-up initiatives.		municipalities to cover the initial costs of establishing shared services provision projects, making collaboration more feasible.		
4.2.2. Establish practical and transparent funding models for municipalities to establish shared municipal service provision	• In order to define member municipality contributions to fund shared services provision, reliable information on costs based on solid accounting tools are needed for agreeing cost sharing. • While the optimal cost sharing method depends on the type of public service and intensity of collaboration, and the eventual decision should be left with the participating municipalities, the following methods and principles (described in following columns) should be considered by Lithuania.	• Municipalities to consider and define clear cost-sharing methods and principles, depending on the type of public service and intensity of collaboration, based on full cost funding (both indirect and direct costs).	• First, develop a standardised method to define and present costs of municipal services, to enable well-informed and transparent shared services provision and fair cost-sharing (recommendations in section 4.3.2 and 4.3.3). • Second, using the cost data, calculate and take into account all direct and indirect service costs of shared municipal service provision (i.e. the full cost method) as a basis for cost sharing. • Thirdly, select a model to share costs of shared services provision depending on service type and collaboration intensity (see Table 4.1 and Box 4.1): ○ Matching principle: Costs are covered based on service use by residents, ideally aligning costs with benefits. ○ Population-based cost sharing: Costs are shared based on each municipality's population, offering simplicity but potentially reducing cost control motivation. • In specific cases, consider applying the following cost sharing methods: ○ Equal share contribution: Each municipality pays an equal share. Suitable for evenly distributed benefits. ○ Ability-to-pay contributions: Based on each municipality's fiscal capacity, with wealthier municipalities paying more. ○ Hybrid model: Combines methods to suit specific shared services provision circumstances, allowing flexibility to meet	Benefits: • Systematic models for sharing costs between municipalities in shared services provision will facilitate fair contributions among member municipalities. • Comprehensive cost coverage in shared services provision. • Funding methods adaptable to diverse models of shared services provision. • More effective and equitable municipal shared services provision. Challenges: • Some cost-sharing methods are easier to implement than others. • The matching principle poses budgetary risks if municipalities initially under-budget their contributions or cannot control service usage. • The population-based cost sharing principle can	Central government (Ministry of Finance, Ministry of Interior)

			diverse needs.	create limited motivation for cost control.	
Fostering shared services provision with central government financial support	- Central government financial support can play a role in encouraging municipalities to engage in shared municipal service provision. - One potential cost-neutral method is to channel central government grants (in the Lithuanian case: the subsidies for delegated functions, or the funds based on shared income tax revenue) directly to collaborative entities rather than to individual municipalities.	- In case of most demanding shared municipal services, establish central government grants that are targeted directly to shared services provision bodies, instead of municipalities. - Introduce a specific grant that is conditional on the collaboration and on the impact of the project. Combine funding and other support with strict impact evaluation.	- Modify the Law on Methodology of Determination of Municipal Budget Revenue and LLSG to enable measures described in the previous column. - Develop clear guidelines and criteria for collaboration-based funding to ensure fair and transparent allocation. - Create a support framework for administratively weak municipalities to ensure they are able to find partners for shared municipal service provision.	Benefits: - Supports shared services provision initiatives by making them financially appealing. - Rewards municipalities with successful shared services provision outcomes. - Encourages municipalities to form larger, more sustainable partnerships. Challenges: - Developing criteria to ensure fairness and transparent allocation of state support may be complex. - Amending primary law to modify the grant system may take time.	Central government
4.2.3. Improve access to financing to better enable joint municipal investments	- Municipalities are currently allowed to contract short-term and long-term loans (article 10 of the law on Budget Structure). Structure). - However, they have low borrowing autonomy and are subject to stringent budget rules as defined in the law on Budget Structure and in the law on the Approval	Lithuania establishes a pooled financing mechanism (e.g., credit institution owned by municipalities, such as in France, Sweden, Denmark or Finland) as a mean to increase cooperation between municipalities in large projects.	- Implement the recommendations on the use of public investment funds in Lithuania presented in the OECD report "Raising Local Public Investment in Lithuania" (slightly modified for this report's purpose): - Establish a mechanism for joint municipal borrowing: - Create an agency for pooled municipal borrowing, either owned by the municipalities or by the central government (Annex D). - Create a guarantee mechanism for municipal and joint municipal loans, using	Benefits: - Enhance municipalities' access to external financing and thereby increase incentives for larger joint projects. Challenges: - Finding the right balance between municipalities with different financial capacities. - Amending primary law	Central government

	of the Financial Indicators of the State Budget and Municipal Budgets, compared to other EU countries (Chapter 2, Table 2.5). As discussed in detail in the OECD report “Raising Local Public Investment in Lithuania”, there is no pooled financing mechanism in Lithuania contrary to other EU countries. As a result, municipalities, especially the economically weakest ones, have limited access to financing for large projects.		example for such arrangements in other countries (Annex D). - Avoid explicit or implicit central government guarantees on individual municipal loans. - Clarify and establish legal provisions in budget law (fiscal rules) to better allow for municipal and joint municipal borrowing by municipalities for cooperative projects, enabling them to take advantage of economies of scale and shared risk. - The central government could also re-lend funds to municipalities or joint municipal bodies to finance public investment. - This could be processed through institutions such as VIPA.	on joint borrowing may take time.	
4.2.4. Ensure clear fiscal rules for shared services provision	- Lithuanian municipalities are subject to various fiscal rules, including a balanced budget rule. - Compliance with fiscal rules is monitored by the Ministry of Finance and by State Audit Office. - Small and large municipalities are treated differently by the rules. - If a municipality does not comply with the rules, the primary consequence is the loss of eligibility to receive central government grants for the co-financing of EU	- Ensure that a fiscal oversight mechanism applied for monitoring municipal finances is tailored to shared service provision, involving regular financial reporting, performance evaluations, and external audits, to ensure accountability and transparency. - Joint municipal authorities and joint municipal companies should be allowed the legal right to borrow for investments. - The borrowing rules applied to single municipalities should be tailored for joint municipal authorities, ensuring that the regulations do not create	- Make changes and amendment in the budget law to ensure that joint municipal bodies are regulated with same rules as municipalities. - In the budget law, make legal provisions that allow the joint municipal bodies, when they are separate legal bodies (see recommendation for joint municipal authorities in section 4.1.1), to borrow for investments. - Establish a protocol in LLSG for treating collaborative bodies that are in severe fiscal distress (Annex D). - In the LLSG, mandate active involvement of member municipalities in the fiscal oversight of collaborative bodies, through structured monitoring and early intervention strategies to prevent financial instability.	Benefits: - Promotes fiscal transparency of shared services provision through regular financial reporting, audits, and performance evaluations. - Helps ensure a consistent regulatory framework while acknowledges the distinct nature and operational requirements of shared services provision. - Helps early detection of fiscal distress of shared services provisions. - Encourages prudent fiscal management of	Central government

	Structural Funds. While it appears that shared municipal service provision in Lithuania is governed with same fiscal rules as municipalities, the regulation could be clarified and amended.	incentives to bypass the fiscal rules using the collaborative arrangements. - Similarly, the borrowing rules for joint municipal companies should follow the same principles as those for municipal companies owned by a single municipality. - Develop a tailored non-compliance financial rules management subprocess for collaborative bodies, focusing on early detection of financial distress. - Ensure that there is clear framework for interventions by individual member municipalities to prevent financial crises. This could be done by requiring in the legal framework (LLSG) that the founding charters of municipal collaborative bodies should include a governance process to describe how the board of joint municipal authority organises negotiations with the member municipalities on financial matters. In other words, formalise the role of member municipalities in the founding charter in monitoring and supporting the financial stability of collaborative bodies, ensuring that early intervention mechanisms are in place.		shared services provision and municipalities. Challenges: - Developing appropriate indicators to monitor fiscal situations of shared services provisions can be complex. - Ensuring that penalties are applied in practice.	
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INSTITUTIONAL FRAMEWORK (see section 4.3 for details)					
4.3.1. Reinforce the role of Central Project Management Agency (CPMA) in supporting municipal shared service provision	▪ Lithuania would benefit from CPMA providing advisory services for municipal shared service initiatives, leveraging its existing mandate to support government bodies. ▪ Enhancements to CPMA's capabilities should include guaranteed funding for these roles, authority to provide technical, legal, and administrative assistance, and facilitating forums and networking events for shared services. ▪ From the municipal perspective, this support would simplify drafting founding charters, establishing cost-sharing mechanisms, and managing collaborative projects, with potential input from the competence network (Kompetencijų tinklas) for additional expertise.	▪ Empower CPMA to offer comprehensive technical support on financial and administrative aspects of shared services provision to municipalities initiating collaborative projects. ▪ Enable CPMA to assist in planning and negotiating the content of founding charters/basic agreements, focusing on service cost determination and the establishment of cost-sharing mechanisms (membership fees). ▪ Ensure regular funding for CPMA for being able to offer technical, legal and administrative support for municipalities for establishing shared service provision arrangements. ▪ Designate CPMA to organise forums facilitating dialogue among municipalities on shared services provision topics, to share success stories (e.g., national champions) and good practices, and to organise networking events. ▪ Empower CPMA to collaborate with other central government agencies, ministries, municipalities, ALAL, and the competence network (Kompetencijų tinklas) to ensure that shared services provision can be organised	▪ Empower CPMA legally and financially to offer support to municipalities embarking on shared services provision projects. This support should include: ○ Financial support: how to seek funding to kick-start shared services provision projects. ○ Administrative assistance: guidance on administrative procedures and regulatory compliance. ○ Technical assistance: expertise in project design, implementation, and evaluation. ▪ Assign CPMA to organise nationwide and local shared municipal services provision dialogue forums: ○ Facilitate dialogue and exchange of ideas and good practices among municipalities on topics related to shared municipal service provision. ▪ Enable CPMA to assist municipalities in planning and negotiating the specifics of founding charters or basic agreements for shared services provision projects. ○ Service cost determination and the establishment of cost-sharing mechanisms. ○ Providing templates or model agreements for founding agreements (joint municipal authorities and joint municipal companies) and contracts (host municipality arrangements, shared HR resources). ▪ Authorise CPMA to hire or designate project managers whose primary responsibility is to ensure that municipal collaborations are effectively transformed from concept to practice. ▪ Empower CPMA to actively seek and facilitate collaborations with other central government agencies, ALAL and the municipalities, enabling shared vision on	Benefits: ▪ Raise the quality and professionalism of collaborative arrangements. ▪ Promote a culture of cooperation and increase trust between municipalities. ▪ Ease the collaboration process and to solve the technical issues. Challenges: ▪ Increasing the culture of cooperation and increasing trust among municipalities is a long-term process. ▪ CPMA will need more staff capacity and staff dedicated for shared services provision support/assistance.	Central government

4.3.2. Establish standardised descriptions of municipal public services	Lithuania does not currently have a standardised description and classification of municipal public services.	more effectively. - In order to improve the comparability of municipal service costs and service usage, Lithuania should start a reform to develop a standardised classification and description of the municipal services. - This would significantly enhance the municipal governance and would lead to improved data accuracy and reliability, which would allow for more accurate comparisons and benchmarking between municipalities.	utilising shared municipal services provision. - Initiate project - Form steering committee: representatives from municipalities, ALAL, Statistics Lithuania, key ministries, CPMA, and other key stakeholders. - Make research - Research existing classifications: - Example: Finnish “JHS 200” model (see Annex F). - Define service categories: - Specify what constitutes municipal services. - Group into sectors using COFOG classification. - Feedback collection - Collect feedback through workshops, forums, public consultations, and written comments. - Adjust development based on feedback: refine classification categories and structures. - Pilot testing - Execute pilot project: - Select municipalities for testing. - Implement pilot classification system. - Evaluate pilot results: - Analyse feedback and practical challenges. - Make necessary adjustments: - Refine classification system based on pilot outcomes. - Implementation - Finalise classification system: - Establish a comprehensive classification system. - Set implementation timeline: - Determine national rollout schedule.	Benefits: - Developing service descriptions is a first step in building better data on municipal services in Lithuania. - Builds base for the evidence-based establishment of shared services provision and costs-sharing models. - Improves comparability across municipalities. Challenges: - This is a long-term process that requires adequate staff capacity and staff training.	Central government and municipalities
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			○ Train and resource municipalities: ▪ Provide necessary training and resources for implementation. • Maintenance ○ Regular updates: ▪ Create a procedure for annual reviews or dedicated team for updates.		
4.3.3. Improve the quality and reliability of data concerning municipal costs and service use to enable shared municipal service provision	▪ The next step after developing standardised description of municipal services is to develop the data and indicators on municipal costs and service use. ▪ Lithuania could markedly enhance its database on municipal service costs, inputs, outputs, and service usage.	▪ Develop standardised classification and reporting guidelines. Adopting a standardised system for municipal accounting and reporting municipal of service costs would facilitate consistent financial reporting and analysis. This includes defining clear categories and content (which items should be taken into account) for services and costs, ensuring that data from different municipalities are comparable. ▪ Develop a platform for collecting, storing, and analysing data on municipal service costs and usage. Using an automated data collection technology would enable quicker data collection. ▪ Once the standardisation is finalised, Lithuania should build municipal capacity and train officials in municipalities and service providers to data collection and reporting techniques. ▪ Encourage experience sharing, comparing results and transparency among all	▪ Establish guidelines for municipalities regarding the calculation of costs associated with municipal services and enforce mandatory compliance to these regulations (see an example in Annex G). ▪ Develop a platform for collecting, storing, and analysing municipal service costs and usage data, ensuring standardised formats and indicators for consistency across municipalities and shared service provision units (see example in Annex F). ▪ Develop uniform accounting practices and mandate in the LLSG and the Accounting Law that all municipalities and joint municipal authorities adhere to these standardised practices. ▪ Train municipal officials and service providers on data collection, reporting and accounting standards, and data utilisation for service planning and improvement. ▪ Continuously evaluate and improve data collection and reporting processes, including regular reviews of data relevance, collection methods, and analysis quality, using feedback for system enhancements. ▪ Utilise modern IT solutions for efficient data collection, storage, and analysis, including developing or adapting software and platforms for municipal data needs.	Benefits: ▪ Comparable and reliable data on municipal service costs and use are critical for well informed decision-making on public services at municipal and central government levels. ▪ Increases accountability to citizens. Challenges: ▪ Developing such working methods and information collection will take time and requires dedicated staff.	Central government and municipalities

		stakeholders participating in the exercise. ▪ The other existing data sources containing data on municipal public services should be reviewed and a comprehensive system should be put in place combining different sources. ▪ Review regularly and improve data collection methods. Continuous evaluation by national statistical authorities and other stakeholders involved in the data collection and reporting process is crucial. This includes regularly reviewing the relevance of collected data, the efficiency of data collection methods, and the quality of data analysis. Feedback from users of the data should be used to make iterative improvements to the system.			
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Source: OECD elaboration.

Annex D. Examples 1 to 15

[Link to Annex D](#)

This Annex provides several practical examples including legal provisions, founding charters and agreements, municipal service classifications, among others, as follows:

- Annex 1 - Example of legal provision for host-municipality arrangement
- Annex 2 - Example of host-municipality agreement
- Annex 3 - Example of legal provision for joint municipal staff positions
- Annex 4 - Example of joint municipal staff positions agreement
- Annex 5 - Legal regulation regarding the Founding Charter of joint municipal authority, an excerpt from the Finnish Municipal Act 2015
- Annex 6 - Example of Founding Charter of a joint municipal authority (Pohjois-Karjalan sosiaali- ja terveystalvelujen kuntayhtymä)
- Annex 7 - Example of legal regulation regarding the municipal and joint municipal companies, excerpts from the Finnish Municipal Act 2015
- Annex 8 - Example of shareholder's agreement of a joint municipal company
- Annex 9 - Example: Legal Act on piloting in public administration in Norway
- Annex 10 - Summary of OECD recommendations for improving municipal funding and financing of public investment
- Annex 11 - Example of OSCE conditional grant to establish shared service provision
- Annex 12 - Example of legal provision for funding joint municipal authorities directly in Finnish secondary education
- Annex 13 - Example of legal provision for funding the municipal collaborative bodies in Finland
- Annex 14 - Example of municipal services classification: Finnish municipal service classification with long descriptions
- Annex 15 - Example of a pooled municipal financing mechanism

Annex E. Agreement on the performance of official duties

This document contains an example of model agreement for joint municipal provision of official duties. The original material has been provided by Finnish Association of Municipalities in 2017 for the Finnish municipalities.

[Link to Annex E](#)

Annex F. Automated Financial Reporting Manual for Municipalities and Joint Municipal Authorities (AURA)

This Annex provides an example from the Finnish model for a standard procedure for accounting across all municipalities and joint municipal authorities.

[Link to Annex F](#)

Annex G. List of accounts of municipalities and joint municipal authorities (JHS192)

This document contains Finnish Government's recommendations on the chart of accounts of Finnish municipalities, joint municipal authorities, municipal enterprises, joint municipal enterprises.

[Link to Annex G](#)

Enabling Inter-Municipal Shared Service Provision in Lithuania

PROPOSED LEGAL AND INSTITUTIONAL FRAMEWORK AND PILOTING APPROACH IN TAURAGĖ+ FUNCTIONAL ZONE

Lithuania is experiencing rapid demographic change, with the population ageing and significantly shrinking in recent decades. This trend has put pressure on the provision of public services, especially at the municipal level, and is expected to continue in the coming years. Ongoing efforts are made by Lithuania to improve the delivery of municipal services with the aim to mitigate territorial disparities and foster social inclusion. In this perspective, shared public service provision is viewed as a way to enhance the accessibility, affordability and quality of essential public services. This report provides recommendations and an action plan to address challenges inherent to the legal, fiscal and institutional frameworks for shared municipal service provision in Lithuania, while taking stock of these different challenges. The report also provides two roadmaps for piloting primary healthcare and long-term care services in Tauragė+ functional zone (Jurbarkas, Pagėgiai, Šilalė, Tauragė municipalities) through shared municipal service provision. The report draws lessons from peer country experiences, and in particular Finland, where inter-municipal cooperation has been used successfully for decades.



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