

Municipality of Aarhus, International Office

Development of Local Self-government in Leningrad Oblast

Report

4. September 2008



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1 Local government in Denmark

In Denmark there are approximately 5.5 million citizens and, after the local government reform implemented per 1. January 2007, there are three levels of government state, regional and municipal level.

A Danish Municipality

A Danish municipality is led by a local council, directly elected by the voters who are residents within the geographic area covered by the municipality.

The Mayor is elected from among the council members, by a simple majority vote.

The municipal administration is responsible for carrying out decisions made by the local council, and the Mayor is head of the administration.

According to the Danish constitution the municipalities are self-governing.

It is a fundamental principle that all activities carried out by Danish municipalities must be authorized by laws approved by the state parliament - Folketinget (which corresponds to the Russian Duma).

Any activity not mentioned in the law made not be carried out by a municipality. A municipality may also carry out service on behalf of the state, for which they receive separate payment.

The following matrix shows an overall view of the tasks performed by the various levels of government. The matrix is not exhaustive but gives the comprehensive picture.

Table - Activities performed by Danish authorities

Level	Activity
State level	Legislation for all public administration and services Responsible for the overall economic policy Foreign Affairs, development assistance National defence, national civil protection and police Court system Prison system National food control - monitoring

Level	Activity
	Working environment - monitoring Tax administration National culture institutions Universities, upper secondary school and vocational school system Employment service - jobcentre - in cooperation with municipalities Infrastructure - superior roads/motorways, railroads Environment - overall planning and monitoring Specialized advice system for citizens and professionals - disabled
Regional level	Secondary healthcare system, hospitals, general practitioners etc. Infrastructure - bus traffic "cross municipalities" Environment - regional development plans Regional business development Social institutions - specialized institutions for disabled
Municipalities	Primary health care system, home care, nursing, etc. Local culture institutions Primary and lower secondary school Employment service - jobcentre - in cooperation with the state level Infrastructure - local roads and bus traffic in corporation with the regional level Environment - local implementation and monitoring of the requirements of the environment legislation. Removal and dispose of disposal, water supply etc. Town planning - infrastructure, residential areas, industry etc. Social aid, old age pension etc. Social institutions - institutions and aid for disabled Day care for children Housing, assignment/administration of public supported housing Libraries Main entrance for citizens - advice, gatekeeper, issue of passports, issue of driving license

The key aims of the governmental structure are to secure local self government and ensure the most rational division of tasks. At the same time it is important to point out that the division of tasks is a result of different political interests, both in relation to the political system and to the non governmental organizations, for example, the labour organizations, the employer organizations, the Association of Danish Municipalities etc.

1.1 Reasons for the reorganization of municipalities in Denmark

The ground pillars of the structure of local government in Denmark were laid down in the municipal reform process in the 1970'ies. At that time there were 1300 rural districts and 86 urban councils/municipalities and 25 country councils. This was reduced to 14 country councils and 275 municipalities. After the

recent reform in 2007 there are now 5 regions - the successor of country councils, and 98 municipalities.

There were two main reasons for the reformation in 1970. Firstly, the divisional boundaries between rural districts and urban areas were dissolving. Urban areas spread across municipal borders into rural districts. Secondly the rural districts were too small to solve the tasks for which they were responsible.

Between the reformation in 1970 and 2007, there was a concurrent decentralization from state level to regional level and the municipalities. Especially within the social sector - institutions and services for disabled persons - were placed at regional and municipal levels. This was to ensure that the services provided were as near to the recipients as possible.

The development of the welfare state over the, almost, 30 year period between the two reforms showed the ever growing need for a new reform on the division of tasks between the various government levels. Three weaknesses were pointed out:

- the administration units were too small to solve their tasks
- it was difficult to provide a coordinated and coherent service for citizens
- the division between the levels of government were, in many cases, inefficient

Due to this, in 2002, the Government elected a commission to assess and make recommendations to reform the structures of the public sector.

The aim was to ensure and develop a democratic public sector which was able to contribute to the further development of the Danish Welfare System. The means were to be sustainable administration units and a clear division of responsibility between the different government levels - fewer and larger regions and municipalities.

1.2 The municipalities coping strategy: Cooperation

During the period between the reformation in 1970 and that of 2007, the municipalities were expected to ensure good and efficient services, as shown above. For example, the tendency towards decentralization left many small municipalities with an increasing number of tasks and a growing need for specialized services, workers with high education in order to solve the more complicated jobs, etc.

For the local councils this meant that the cost of the most fundamental services increased and it was difficult to provide the necessary service.

Coping by co-operating

In answer to this, the Danish Municipalities entered into inter-municipal and municipal private cooperation agreements in those areas where the single municipality, for various reasons, was unable to solve their tasks themselves.

1.2.1 Examples on form of co-operation

Informal agreements

Politicians, management, specialists etc. met one another in associations and networks. There are associations for top-level management and associations for municipalities within their local area. The Association of Danish Municipalities plays a major role in organizing meetings, networks etc. Matters of municipal interest are discussed either according to an agenda or on an ad hoc basis.. The topics for co-operation are typically mutual advice, knowledge sharing, seminars and other relevant information.

Agreed co-operation between municipalities

This type of co-operation is more binding than informal contact. In this case, two or more municipalities agree on a specific cooperation area. Just how binding the co-operation is depends of course on the agreement.

Examples of this type of co-operation are:

- It is agreed that municipality A may use and pay for a specialist employed in municipality B
- It is agreed that municipality A and municipality B, in co-operation, engage a specialist and his/her wages are shared between the two municipalities
- Overcapacity of a social, or other, institution can be used by other municipalities. The other municipalities pay for the use of the institutions.
- Two municipalities and the local business associations establish an office for industrial development

Municipality as contractor

The concept is that one municipality undertakes a task for a number of municipalities.

This is often used when the investment to run a job is very costly, as examples running of IT systems, road maintenance etc can be mentioned.

The other municipalities pay for the services.

Inter-municipal company

In principle a joint municipal company can be established in three forms:

- 1 As a public or public/private limited company.
- 2 As an inter-municipal company.

The circumstances under which the best solution to establish a company may be

- The co-operation includes heavy investments
- There is a need for extremely specialized employees.

Thereby, the municipalities in the co-operation commit themselves for a number of years.

A private limited company

This type of company is established between two or more municipalities. It follows the legislation governing private companies.

Inter-municipal companies

Among the characteristics for a Danish inter-municipal company are:

- It is a legal entity. The company can go to court and can be prosecuted.
- The construction is decided in the municipal councils (the participating municipalities).
- The company has a board of directors nominated to the post by the council of the participating municipalities.
- The statute defines which decisions must be approved by the municipalities. These will typically be major changes to the general concept such as a new statute (if e.g. a new municipality wishes to join the company), new products, obtaining loans and liquidation of the company
- As an inter-municipal company – and in particular when a loan is guaranteed within the participating municipalities – the company has access to cheap loans, for example from the European Investment Bank.

1.2.2 Cooperation after the reform

This municipal strategy of cooperation in areas where it is possible to provide a better and cheaper service if they work together did not cease after the reformation in 2007. The strategy has proven its worth over the last 30 years. So even though many municipalities have grown considerably in size they still find areas where it is expedient to cooperate. Examples of this are specialized social institutions, waste removal, water supply, IT, etc.. One of the major strengths of the strategy is that it is a non-bureaucratic way of handling and managing the continuous changes to the demand for services provided by the municipalities. If one council wishes to cooperate with another council all they need to do is to enter into a mutually beneficial agreement.

Due to the amalgamation and enlargement of many municipalities, a large portion of the inter-municipal cooperation has become obsolete. The new municipalities are able to provide efficient service themselves. However, there are still a number of municipalities that need to cooperate with other municipalities in order to ensure an efficient service within certain areas. Despite the reformation

there are still a number of relatively small (below 30.000 inhabitants) municipalities that have not been amalgamated and still continue cooperating with other municipalities and, in some cases, have increased the cooperation.

2 General terms for the reorganization

In 2004 the commission for the restructure of the public sector came up with recommendations that served as the basis for political discussion on how the public sector should be organized. In 2005 the legislation for the new structure was approved in the Danish National Assembly - Folketinget. In the following we have outlined some of the most important items of the reform.

Decision on new municipalities

The law specified that the regional level was to be reduced to 5 regions and the main aim of the regional level was to provide secondary health care, hospitals, general practitioners etc. In the case of the municipalities, the tasks were almost all unchanged, with the exception of the administration of taxation which was transferred to the state level and, in addition the municipalities took over a large portion of the tasks from the county councils, particularly within the social area. There was no specific information on how many municipalities there should be in the future. However, the new municipalities were given certain requirements to fulfil. The municipalities could have no fewer than 20.000 inhabitants - and if they were - they were obliged to cooperate with another municipality in certain areas - the employment service for instance. Furthermore, they were obliged to negotiate with other municipalities and ensure that those municipalities that did not fulfil the requirement to size - minimum 20.000 inhabitants - merged with another municipality or could produce a cooperation agreement with another municipality. As previously mentioned this led to a reduction from 275 municipalities to 98. In a number of municipalities the council voted on whether or not they should merge and, if so, with whom or whether they should continue as they were etc. This referendum did not bind the municipalities - but were more or less adhered to. To give an example of the change in the size of municipalities there has, in general, been an increase from 20.000 to 55.000 inhabitants after the implementation of the reform.

All mergers between municipalities and continuation of existing municipalities had to be approved by the Danish National Assembly - Folketinget.

Level of expenditures

An initial term of the reform was that the expenditure level, due to the reformation, would be neutral. This meant

- that the overall service level should remain unchanged
- all assets, be it was buildings, material or employees would be transferred to the new service provider (municipality, region etc.)

However, it was recognized that there were expenditures connected to the implementation of the reform - transfer of administrations, different analyses etc. The regions and municipalities were allocated financial resources to cover these expenditures.

Furthermore, the regions and municipalities were promised that any eventual financial synergy effects due to the merging of organizations were to be kept within the regions and municipalities. This was one of the key incentives of the reformation for regional and local government.

Political terms

To ensure continuity during the transition process between the old and the new representative bodies, the reform law established a provisional governmental structure at regional and municipal levels.

New council representatives were elected in the regions and municipalities in 2005 and were inaugurated by the 1 January 2006. The previously elected representatives from the old councils retained their posts throughout 2006 until the final implementation of the reform in 2007. The old councils retained their authority but all major decisions were to be approved by the new council. By January 2007 the new councils took over and the old were dissolved.

Participation of citizens

Legislation pertaining to the structural reform did not make any demands on citizen participation in the creation of new regions or municipalities. For the regions, the legal framework was stipulated by law and with regard to the municipalities, it was the particular council that had the authority to recommend changes to the new municipality. But as stated previously - few municipalities held consultative referenda.

Financial compensation system

There has, throughout the years, been a financial compensation system between local government and the state and between municipalities. This has been successively developed to ensure that the financial status between different municipalities is not extreme. There was a general understanding that this system needed to be revised. This understanding was recognized prior to the structural reform and was further enhanced due to the reformation process which transferred public sector activities between different entities.

In general the municipalities obtain their revenue from:

- Tax - income tax, property tax, and a part of the corporate tax of the companies situated in the municipality
- Revenue from users fees and sale of property
- Loans
- Refunds on specific expenditures and general contribution (the financial compensation system)

The compensation system is complex and takes a large number of indicators into account to decide how the municipality should be compensated, for instance:

- Income pr. inhabitant
- Demographic conditions
- Refunding of social expenditures
- Income due to cooperate tax

On average, 20% of the municipality's expenses are covered through the compensation system. However, this has meant that a large number of municipalities have had to transfer their revenue to the state. The state then transfers it to other "less rich" municipalities. In some municipalities 50% of their revenue comes from the compensation system while other municipalities have to contribute with up to 40% of their revenue.

The reform included a new financial compensation system which was also approved in the Danish National Assembly - Folketinget.

3 General process guide for implementation of the reform

The association of Danish Municipalities prepared a full-fledged scheme on how to implement the reform, both on a political level and on an administrative level. The scheme is divided into 4 phases: Clarification, Planning, Decision making and Implementation.

This scheme has formed the guiding star for almost all municipalities in their work on implementing the reform. It is worth noting that all municipalities have adjusted the scheme to meet specific local conditions. The scheme is as follows:

Clarification phase

Municipalities get together	- Initial discussions between the involved municipality councils in order to agree on what the purpose of the amalgamation is
Process strategy: - Organization - Timetable - Ethical rules of the process - Communication strategy	- Establish a taskforce with representatives from the involved municipalities that prepares the decisions that the councils need to take - Set up a time table for the overall process - Set up rules for the cooperation between the municipalities and on how the process shall be undertaken - Work out communication strategy that address the stakeholders
Vision for the new municipality	- Work out a new vision for the amalgamated municipalities on both political and administrative level
State of affairs	- Preliminary description of objectives, organisation, service level and practice
Dialog activities	- Presentation of decisions to relevant stakeholders

Planning phase

<ul style="list-style-type: none"> - Prepare decisions in thematic task groups: - Organization/administration - Economy - Employees - IT - Secure running - Practical questions - Division on the relevant subjects influenced by the reform - for example the social area 	<ul style="list-style-type: none"> - Set down thematic task groups that analyses and comes up with recommendations within important subjects influenced by the amalgamation - How shall the organizational set up be, departments etc. - Analysis of budgets, key figures, calculations in order to create the foundations for new budgets - the economic frame - for the new municipality - Analysis of conditions in employment, evaluation of the employees competences and recommendations on how to secure a good transition - Analysis of IT and development of a plan for integrating and development of a strategy and perhaps planning of purchase of new soft- and hardware - Secure coordination between task groups in order to give maximum attention to the day by day business. (The amalgamation may not cause disruptions in the daily business - home nursing has tom run all the time) - who shall sit where, removal of offices etc - Analysis and recommendations on the specific subjects influenced by the reform, social institutions, infrastructure, tax etc.
Dialog activities	- Presentation of decisions to relevant stakeholders

Decision phase

<p>Decision on the relevant subjects influenced by the reform</p> <ul style="list-style-type: none"> - Lay down a central organization - Appoint leaders - Place employees - Lay down budget - Lay down service levels (concerning citizens) - Chose IT-system - Use of buildings etc. 	<ul style="list-style-type: none"> - Final decision by the council and the management on how the organizational set up shall be - Appoint leaders until department level - Final decision by the council on budgets - Final decision by the council on service levels - Final decision on the choice of IT hardware/software - Final decision by the council on the use and sale of buildings
<p>Carry out decisions</p> <ul style="list-style-type: none"> - Negotiate/cancel contracts - Pooling of data 	<ul style="list-style-type: none"> - Securing new contract with suppliers, rent of property etc. - In dialog with IT supplier securing pooling of data from the amalgamating municipalities

- Set up IT - Negotiate terms for employees	- In dialog med the IT supplier securing the right set up for the new organization - Securing employment contracts wit all employees and the new authority/municipality
Dialog activities	- Presentation of decisions to relevant stakeholders

Implementation phase

Moving (to the new places)	- The administration plans and carry through the actual moving to the new places to work in the new municipality
Start of the new municipality	- Actual running of the new organization (the doors open)
Evaluate structure	- The administration successive evaluate the organization in order to make the necessary adjustments (larger adjustments must be sanctioned by the council)
Harmonizing service levels (concerning citizens)	- The administration implements the new service levels in their practice/decisions and monitors if it works as supposed
Securing right qualifications for leaders and employees, training etc.	- Setting up a programme for evaluating the employees skills and competence and if needed running different qualification programmes
Development of policy	- The council shall run through all policy areas in order to have adequately visions and guidelines for both citizens and administration
Development of business	- Both the administrative level and the council must have focus on developing business in order to securing that the overall objective with the reform is achieved and that possible synergy in the amalgamation is harvested
Evaluation	- After 1-2 years is it recommended to carry out an overall evaluation
Dialog activities	- Presentation of decisions to relevant stakeholders

It is important to point out that there is a tradition, both rooted in the law and in practise, for extensive involvement of employees in the public sector in Denmark. This is one of the reasons why dialog activities formed a part of every phase and why task groups were formed, in accordance with topics prompted by the reform process, primarily based on employees within the specific area.

Other guiding stars in the amalgamation process of municipalities in Denmark were the following three guidelines which were to pervade the overall approach:

- Development
- Secure running
- Wide ownership and dialog

Ownership and dialog

The experience from merger and amalgamation in Denmark show that success is reliant on the positive engagement of the various stakeholders - citizens, politicians, employees, leaders etc. This is, of course,, not always possible - there will inevitably always be some discontent, however, it is still very important to generate as much positive feeling as possible. One way to achieve positive engagement is to clarify exactly why the amalgamation is necessary and try and ensure that the stakeholdes are confident with the amalgamation process.

Secure running

Another important lesson learnt was to maintain focus on the daily running of the municipality. There is a risk that the attention given to the amalgamation process will draw focus away from its primary task of delivering services and ensure the legal rights of its citizens. Furthermore, the new opportunities generated by the amalgamation will draw attention and also need to be focused on.

Development

A third important lesson on the merger and amalgamation in Denmark was that the merger does not in it self ensure development or realization of possible synergy effects. These have to be enforced through in cooperation between top management, the council and other relevant stakeholders and in particular, the employees.

4 Provisional conclusion on the experience of the government reform in Denmark

Due to the fact that the governmental reform in Denmark is relatively new there is no final documentation on the results of the reform. None the less there are numerous discussions on the subject by politicians, civil servants and academics. The source for the provisional conclusion is primarily based on these discussions.

In the following paragraphs we will list a number of topics where there is sufficient experience to be gained and which may be of interest in the amalgamation of municipalities in Leningrad Oblast.

The reduction in the number of municipalities

The decision to reduce and transform the 14 country councils into 5 regions was made solely by the Danish Parliament - Folketinget. It was a political process at the highest level and the influence of the country councils was modest. The decision to amalgamate municipalities was also made by the Danish Parliament, but here there was the option for councils in the various municipalities to negotiate with other councils and reach an agreement on which partnership best suited. In this process most of the municipalities found their "partners", but a number of municipalities had difficulties agreeing on whether or not they should amalgamate. In these cases a national arbitrator was appointed to mediate between municipalities. In the end, only a few municipalities were forced to amalgamate.

The process of allowing municipalities - councils - to play a major role in the decision making process has been a success. It has anchored the decision on the political, management and citizen level.

The right size

There have been many discussions on how large a municipality should be. The structure commission recommended a minimum size of 30.000 inhabitants, but the average is now 50.000 varying by 2.500 to 500.000 - but the "normal size" is between 30.000 to 90.000 inhabitants. The main argument about size was technical sustainability and efficiency. Due to the enormous span in the size of some the municipalities this argument has had little influence in the actual amalgamation process. Political desires and strategies within the municipalities were a decisive factor. There are still discussions on what is the "right size" and there is no decisive evidence that 60.000 inhabitants is better than 20.000. However, the variation in size gives different challenges to the councils and management. Smaller municipalities perhaps still need to cooperate with other

	<p>municipalities - whereas larger municipalities perhaps need to focus on the danger of evolving into a bureaucratic organization. According to the law all municipalities with less than 20.000 inhabitants are obliged to cooperate with a municipality that has more than 20.000 inhabitants.</p>
The level of expenditures	<p>Shortly after the reform was passed in the parliament, it became a clear target for the parliamentary majority to secure a modest growth in expenditures within the public sector as a whole. The reason has been the risk of overheating the economy. An example is the unemployment rate which is less than 2 % in Denmark at the moment. At the same time parliament has set high standards for service levels in the municipalities. These two factors place the municipalities under enormous pressure and the Association of Municipalities in Denmark constantly points out that it is difficult to make ends meet. At the same time the association points out that the reform adds additional financial pressure as the amalgamation process is expensive to implement.</p> <p>There is no clear conclusion on what has had the largest effect on the municipality's financial situation, low budget increases and new demands for services or expenditures derived from the amalgamation. There is, however, an understanding that the amalgamation has large transitional costs over the first couple of years and then there are varying viewpoints on the possible synergy effects resulting from the amalgamation.</p>
Synergy effects	<p>Because, the amalgamation of municipalities in Denmark is a rare event, there is no documentation on the financial effects.</p> <p>There is a general understanding that the councils' ability to prioritize within their economic frame is the most important factor if there is to be any synergy in the amalgamation. If they can provide a service more efficiently they can use the revenue on other services or towards a new town hall.</p> <p>It has already been recognized that the initial cost of amalgamation are high and the realization of possible synergy effects demands excellent management both by the councils and by the top management.</p>
Secure running	<p>One of the major goals in the amalgamation process was to make sure that day to day business was not negatively influenced. This was important because it would affect the livelihood and health of inhabitants.</p> <p>At the same time it is important to point out that if this is the sole focus in the amalgamation process there is a tremendous risk that business development possible synergy effects could be lost.</p> <p>Whether the focus of secure running was too idiosyncratic in the amalgamation process is not documented. But the constant discussion on the financial pressures on the municipalities indicates that the municipalities have not yet collected all synergy effects.</p>
Provisional councils	<p>The experience with the provisional councils were, in general, good. The legal framework ensured continuity during the transition phase. It ensured that there</p>

was a governing body at all times during the period - while one municipality was transformed to another. It also gave political stability and supported rational decisions. There was a fear that the old municipalities would use all their assets or decide on building new facilities prior to the amalgamation. The provisional councils were to approve of all major investments the old councils recommended. This arrangement secured the long term perspective on all investments in the amalgamating municipalities.

The financial compensation system

Due to the reform the financial compensation system was reformed. This meant that a lot of the municipalities lost large subsidies and others were given larger subsidies. It is not possible to draw final conclusion on whether the system is fair, so it has more or less been a political discussion. But the change in this system along with a large number of amalgamations has been a major challenge in the Danish government reform on all levels.

Experience on the merger process

The process implementation guide described previously was used widely in the Danish Municipalities as a guideline during the amalgamation process. But there are 2 important issues that need to be commented.

There is a longstanding tradition, both in the private and public sector, to involve employees in changes and business development. The amalgamation process also involved employees and there were many opportunities for employees to influence the decision making process. This has been a major factor in the successful amalgamation process as the decentralized decision structure made it possible to solve many challenges using employees insight into the problems to be faced.

The amalgamation process also showed that comprehensive information strategy was vital. The strategy needed to address both employees and citizens. The constant changes instigated many rumours and misunderstandings. At the same time the councils needed to inform citizens on what the political end-results were.

The view of the citizens

Because the amalgamation of the municipalities is relatively new it is difficult to give an overall assessment of the citizens' viewpoint. There was an amalgamation of 6 municipalities and a country council on the island Bornholm in Denmark in 2001 - before the government reform.

A Danish research institute (AKF) has analyzed the citizens' view on the amalgamation. Their findings were:

- Shortly after the amalgamation, the support to the new municipality was reduced considerable - one of the main reasons were probably the closure of schools due to a wish for centralization and efficiency which was not accepted by the citizens
- After a period the support for the amalgamation increased but there is one main critique from the citizens. They find that the politicians are too tied to the old municipality and that they should regard the new municipality as a whole.

As previously mentioned, only a few municipalities held elections on who to amalgamate with. There was no demand for elections in the government reform. In some cases elections were held and the councils followed the voters voice. Generally the reform has been positively met by the population but there has of course been some discussion along the way. There has been no major discussion on the fact that the population did not vote about the amalgamation of municipalities. In previous efforts the main task was to convince the population that it was necessary and that has proven difficult. So one of the conclusions on the Danish government reform is, that amalgamation of municipalities is easier when the voters do not have to give their approval.

Cooperation

Cooperation between municipalities has been a widespread strategy to ensure efficient and good quality service. It has also been a way to generate connections to other municipalities and these ties have probably been a major factor in the amalgamation process. Many municipalities have cooperated on both the political and managerial levels and the experience from this cooperation has laid the foundation for the advances made between the municipalities.

The experience from cooperation has been a very important factor in preparing both the reform and the concrete amalgamations between municipalities.

Objective achieved?

The last question and perhaps most important question is - has the overall objective of the government reform been achieved?

At the present time it is not possible to draw a final conclusion on this question. However, there are many indicators on both on the political level, managerial level and on citizen level which show that the amalgamation of municipalities was needed in order to develop the public sector. Another impression is, that there is still some way to go before the amalgamation can be considered a success.