



Political and Constitutional Reform Committee

Oral evidence: [The relationship between central and local government](#): international comparisons, HC 977

Thursday 23 January 2014

Ordered by the House of Commons to be published on 23 January 2014.

Written evidence from witnesses:

- [Slide presentation on Swedish local authorities](#)

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Members present: Mr Graham Allen (Chair); Mr Christopher Chope; Mark Durkan; Paul Flynn; Fabian Hamilton; Robert Neill; Mr Andrew Turner

Questions 1-53

Witnesses: **Lars Andersson**, Chairman, Mårten Andersson Productions, and **Sören Häggroth**, former Swedish State Secretary at the Ministry of Finance and Ministry of the Interior.

Q1 Chair: Good morning, Lars. Good morning, Sören. Thank you so much for sparing your valuable time to come and talk to us today. One of the many inquiries that we have underway at the moment relates to local government and its relationship with central government, the financial interaction that takes place there. We are really looking forward to hearing your expertise on international comparisons and how things work in other places. Lars and Sören, would you like to make a general statement or tell us anything in particular before we begin questioning?

Lars Andersson: Yes, if we could do a short introduction that would be fine. First, let me say that Sören and I work together; we form a very small think-tank in Sweden where we work with questions about the future challenges of local government. I am also specialised in municipal finance, working with the Local Government Association here on the project of a municipal bond agency. I am also working in France with the agency that has been set up recently.

We wanted to give a really short introduction to set the scene. I think you have some of our PowerPoint slides and I would like to refer to a couple of them at the beginning. First, page 2, levels of local democracy. In Sweden we have two different types of local government: municipalities, which were reformed in the 1970s and reduced from a far bigger number down to

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290, and 20 county councils and regions. These two different local governments have different competencies and they have their own finances. It is not a question of the county council being above the local authorities. They have different responsibilities.

Looking at the tasks for local government on page 4, you can see that education and care of the elderly are the two biggest areas for local government. As is the case in the UK, we will see further challenges when it comes to care of the elderly since we are getting older. That is one thing that local government have to address in the future.

The financing, finally: if you look at page 3 there is income distribution. We have local income tax, which is about 67% of the total income. The central government grants are mainly block grants but during the last maybe 10 years we have seen a tendency to centralisation again in Sweden, with more earmarked grants. We hope that this will not go any further but that is a development. I will stop there and hand over to Sören.

Sören Hüggroth: Thank you for this invitation. My background is in the ministries and mainly in finance. I was State Secretary in the Ministry of Finance for five years, so I have been working very much with the financial side but also with the legal side of local self-government. I have handed out a small essay that I use when I lecture about local government in Sweden when people come from Asia and Africa.

I think it is fair to say that not only Sweden but all the Nordic countries, Norway, Finland and Denmark, are very decentralised societies. This situation goes back in history because the people were living in very different parts of the nations and it was impossible for the king, and later the government, to direct the population scattered through the country. The modern local self-government came into being after the Second World War when the economy was growing and it was possible to increase healthcare services, childcare services and so on. The two amalgamation reforms that Lars referred to were carried out in order to strengthen the local governments. The goal was that no local authority would have fewer than 8,000 inhabitants. At the moment we have depopulation, so we have around 100 local authorities with fewer than 8,000 inhabitants; the median size is 15,000 in a population of 9.5 million. The biggest municipality or city is Stockholm with 900,000 and the smallest has only 3,000, so there is a wide range of population sizes.

In the material that you have received is the regulation concerning local government in our constitution. Our present constitution is from 1974, so this constitution was made about the same time as we had the second amalgamation reform. The political ambition was to give local authorities a position in the constitution. In the first article of the first chapter the constitution lays down the principles of local self-government. Local government has a very important role and this role cannot be violated very much by the Government or by the Parliament. If you want to violate local government in a serious way you have to change the constitution and that demands an election, so it is two Parliaments' decisions, before and after the election.

There is a special chapter on local authorities, which you will find also in the documentation. I won't go through all this. It is only six articles but every one is very basic. One basic principle, for example, is that local authorities can only be ruled by law. Individual Ministers, civil servants and so on cannot introduce decrees or make decisions. It is only by law that local authorities can be ruled. A very recent article is what is called the proportionality principle, which means that any restriction in local self-government should not exceed what is necessary with regard to the purpose of the restriction. Every time the government proposes a new law, the law has to be scrutinised by a special legal advisory team, which gives its opinion on whether or not this law violates the principle of local self-government.

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Another very basic article is article 4, which states that local authorities may levy tax for the management of their affairs. This has been violated at some times in history, and I have been part of that process, but I will come back to that later if you want to hear more details about this. This principle is very important also.

I think that is enough for the time being concerning the legal regulation in the constitution. I will stop there and we are happy to answer your questions. Thank you very much.

Q2 Chair: Thank you, Sören. Thank you, Lars. I understand, gentlemen, that you need to be away from the Committee by about 11 o'clock. Is that correct?

Lars Andersson: Yes, around that.

Chair: I should also say that you have two colleagues around the table here who have been Ministers of Local Government in their past, one colleague who has been a Finance Minister and Deputy First Minister in Northern Ireland, as well as other colleagues who have served on local councils as local councillors, so there is a wealth of common ground, I hope, in our language at least.

Q3 Paul Flynn: Welcome. Thank you very much for the presentation. It has been fascinating to read it. The Chairman accuses me of being a cynic, but I just recall that we had a local government reorganisation in 1974, which is long forgotten. It was an utter disaster. I think we envy the Nordic countries: they do take policies on the basis of some kind of evidence and ours are obviously entirely based on irrational evidence-free prejudice, if that is cynical, but it happens to be true unfortunately, the difference between the two countries. The real enormous difference between England and Sweden is, of course, the way that money is collected locally—67% as you say—which would be such a revolutionary change that it probably would produce revolution in local authorities if they were asked to cough up money in that way. Can you think of anything in the Swedish system that we could usefully borrow, usefully emulate, in England?

Lars Andersson: Talking about the local taxes, I think that the income taxes that are financing our local authorities have been working very well. It is a flat tax—it is a percentage and the average now is 31% or something like that. What we have had in Sweden before is property tax, but that has been redone in several steps. There is a discussion now, which we support very much, on introducing a new property tax for the local authorities that they would set themselves. It is important to have the proper financing, otherwise you can't have the sort of independence that you are striving to get. I have been reading your report about reallocating the tax money and setting part of it to local authorities. I think that that would be one good idea, because you need to have financing otherwise it will be a hollow reform.

Q4 Paul Flynn: How rare is it? Is it only in the Nordic countries where there is this predominance of income coming from local authorities? Do other parts of Europe collect money in that way as well or is it collected centrally?

Lars Andersson: Since I have been advising the French local authority organisations, I know a bit about France. When I first started to work with them four or five years ago, I had a view that France was a very centralised country, but then I started to work with the LGA here in the UK and I can see that they are very decentralised. You might say that Sweden has a situation where we

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collect around 67% in taxes for financing and I can't remember the figure here in the UK but is it around 20%?

Paul Flynn: It is much lower than that, about 7%.

Lars Andersson: In France it is about 40%, so it is not as high as in the Nordic countries but you can see that there is much greater independence in France. Right now they are putting through a decentralisation reform in France, working very hard. It is not done yet and we have not seen the outcome of it. The fact is that in France you have 36,000 local authorities, which is far too many but in a way it proves that local government has strength, because the central government have tried to do reforms several times but they can't do it because local government is too strong.

Q5 Paul Flynn: I think the Bretons and the Basques that I know would take issue with you about how much power they have, when they are not even allowed to get state funding to teach in their own languages.

On the question of improvement, there is an incurable belief in the value of reorganisation. We constantly reorganise and throw the pieces up in the air and see how they come down. I have been in local government since 1972, and in Parliament since then. We have something now called localism, which translated means you devolve those decisions to local authorities that you don't want to take yourself because they are politically damaging. We go through these cycles of centralisation and then devolution, and it comes back and forward. I can't think of any reorganisation, in my 42 years in government, where the results have compensated for and been worth the chaos, waste and duplication of the reorganisation. Change has rarely proved itself of any value. Is that your view? To copy the splendid things that you are doing in the Nordic countries would cause change here that almost certainly would do great damage and results that were of nugatory value.

Lars Andersson: I totally agree that constant changes will cause inefficiencies, but then again sometimes you have to adjust the system and I think there is room for that in the UK because of the centralised system you have. I have been looking into questions, for example, like City Deals and I find it a bit amazing to read on the website of the central government that in order to get a City Deal the local government must have a proposition to prove that they have plans for using public money wisely.

Paul Flynn: That is a revolutionary idea.

Lars Andersson: Is that something that local government have to prove to Whitehall? Shouldn't they prove it to the local voters?

Paul Flynn: Absolutely.

Lars Andersson: There are many of these in the website that I find a bit strange, because it is directed in the wrong way and it does not really produce accountability for local government.

Sören Hüggroth: Paul wanted us to give some ideas of what could be exported from Sweden to the UK. One idea concerns how money is being transferred from the central government to local councils. After the amalgamation reform in 1974 we have not made any very extensive structural changes, like amalgamating local authorities, but we have changed the legislation and especially the way money has been transferred from the centre to the local level. During the 1990s, when Sweden was having a very bad economic crisis and the revenues for the whole public sector went

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down, the national government started several reforms in order to give greater freedom to local authorities. We pulled together, in the Ministry of Finance, around 50 special state grants in one bag—it was called the bag principle. It was a block grant system. When the national level could not give more money they gave more freedom, and there are several examples of this kind.

One advantage with local income tax, as we see it—and I can understand the problems that you would have if you introduced it—is that you establish a direct connection between what people are paying and what they get in the form of education and services. It is a very transparent system for financing public services and education. I have full respect for problems changing the system but I think there are several advantages in local income taxes. There are also disadvantages because the income tax that we have is proportionate, it is not progressive, so people pay the same percentage of their incomes. That sets certain limits to having very high local income tax levels.

Chair: You are probably aware, Sören, that we suggested that governments and political parties could look at the concept, not of a locally defined and collected income tax, but what is called tax assignment, so that it would be collected as now at the same rates as now, the same equalisation as now, but would be assigned. This is building on a precedent in Scotland, where 10 pence of the income tax take is retained by Scotland. That is currently also on offer to Wales, but I think our Committee was quite keen that what is good enough for Scotland and Wales could also be good enough for Northern Ireland and England. In that sense, we did not propose the creation of an entirely new system but a finesse on the existing system that would allow greater transparency and clarity, which you were saying, Sören, exists when you do collect locally. So hopefully, in a typically British way, it is an incremental move towards having greater transparency.

Q6 Fabian Hamilton: I wasn't a Minister but I was a councillor in the city of Leeds for 11 years and I saw for myself in those days, the late 1980s and early 1990s, the difference between the way taxes are collected in the UK, and certainly in England, and other countries like Sweden. Local authorities in Sweden, as you have said, are primarily funded by tax revenue that they raise for themselves. Could you tell us what benefits you think that brings? For example, do you have higher turnout at local elections because people's pockets are really affected by the way they vote, or could be? What other benefits are there of that method of funding compared with primarily being funded by grants from central government, as we have in England?

Sören Hüggroth: We have a high turnout at the local elections but the main reason for that is that we have all three elections—Parliament, county councils and local councils—on the same day, so when people go to vote they vote on all levels.

Q7 Fabian Hamilton: Sorry to interrupt you, Sören. Is that every single local government election?

Sören Hüggroth: Yes.

Q8 Fabian Hamilton: So you don't have staggered elections the way we do?

Sören Hüggroth: No. It is every fourth year, the third Sunday in September. I don't think the system of raising taxes has any major influence upon the election participation. On the other hand, taxes often play an important role in the local election. If you want to raise the taxes and you go to

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the election with that promise you will have some problems. So taxes play an important role in local politics but it does not have major importance for the impact on election participation.

Lars Andersson: Just to add something to this, we have seen lately that there is not a great knowledge in the public about who is doing what—and that is a problem of getting people to have the right type of discussion—but also the public has great confidence in the public sector in Sweden. There have been reports issued lately where they have asked, “Would you be prepared to pay more tax if it went to the care of the elderly?” and 85% said yes; if it goes to the schools and education, 75% said yes. It has increased the support for the public sector in Sweden.

Q9 Chair: I am slightly unclear about that. Do forgive me. Is that a separate proposition put to the electorate or is that an argument deployed during election time?

Lars Andersson: This was a report, an investigation about the views of people. It is a totally different matter when they actually have to raise the tax because you don’t pay tax only for care of the elderly, so that could be a problem, but it shows the general confidence in the public sector.

Q10 Chair: Do you have a provision in Sweden, as in America, where you can put a particular proposition to an electorate that there be a school building programme or new bridges built? Do you have that capability?

Lars Andersson: Yes. It is called a citizen proposal but that would be filed with the local authority.

Q11 Robert Neill: Nice to see you again, gentlemen. We were chatting earlier. I had a spell as Local Government Minister when we made some of the changes that we are doing on introducing City Deals, retaining business rates and so on. I am interested on the last point that Fabian and the Chairman asked you about. Given that you have your elections on the same day, do you have any evidence, perhaps academic research or whatever, that demonstrates whether individual voters will vote differently in political terms between the different levels?

Sören Haggroth: Yes, there is quite extensive research about this. The interesting result of this research is that people over time, from the beginning of the 1970s, split their votes to an increasing degree. There is also research that shows that people get more and more informed of the policies of different parties at the local level. From the beginning, some people, some political parties, were very negative to the amalgamation because there were fewer local councillors who could be contacted, but over time the newspapers, local television and broadcasting companies have been more and more active, reflecting what is happening in the local councils and in the county councils. So nowadays people are quite aware of the differences between the parties and that has had this consequence of splitting votes. Of course it is not 100% but it is increasing all the time.

Q12 Robert Neill: That is very interesting. We are short on time and it is tangential to our main inquiry but if perhaps you were able to send us any of that detail, if you would kindly do that, we would find it very interesting because it is something that goes to other issues here in the UK.

I want to come on to the financing arrangements in particular. It strikes me there are some things that are in fact quite similar: that is to say, the legal requirement for a balanced budget; the funding principle is not entirely different from our concept of new burdens adoption that we employ in the UK;

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and the fact that there is an overriding national interest constraint that can be used is perhaps broadly not dissimilar, although we do it in a rather more detailed fashion, as you know, through our local government finance settlements and so on. You made the point about the very large percentage that comes from income taxation. I think you said, Lars, that there were property taxes, that that had become rather less significant but there was talk about that being revived as a mechanism. What is the position with property and business taxation in Sweden?

Lars Andersson: There were property taxes, but that was a state tax before and now there is discussion about whether it should be redone. We support, at least, it being done as a local government tax.

Q13 Robert Neill: Has it always been a national level tax?

Lars Andersson: It was before, yes.

Robert Neill: Unlike our business rates? I see.

Lars Andersson: The taxation from companies was a part of local government income until the 1980s but that produced a situation that was quite unfair, because there were some local authorities that were really well off—they had big plants and so on—so that was ended in 1985.

Q14 Robert Neill: I understand. Looking at your pie charts, it strikes me that while there are some similarities in areas of spending, there are a number of things that on the face of it are not funded by local government in Sweden that are in the UK and vice versa. You fund health much more locally, don't you, through local funding?

Lars Andersson: Yes.

Robert Neill: And deliver it much more than we do, but I don't see you funding housing benefits, transport or police and emergency services and so on out of local government expenditure. Are those all met through national?

Lars Andersson: In the UK you have the concept of social housing. It is not present in Sweden, but it is a discussion right now because we need much more housing. It is a big problem in Sweden now. With us not having the social housing concept, every time the local government or the central government would support housing, it is considered to be state aid under the EU rules, which limits the possibilities to support housing from local government or central government. There is a discussion right now on whether we should introduce some form of social housing, or call it something else. Housing is required to meet its own costs, so you have local government housing companies but they are required to operate in an open market, which is really strange because in many parts of the country there is no market but they are still required to make a profit and to operate as if it were a market. This is a real problem.

Q15 Robert Neill: That is fascinating. It is a shame we don't have time to explore the state aid point. You have given us a good breakdown there of how the revenue account works. What about the capital side of things? How do local authorities generally fund their capital programmes? Is there a capital grant or is it through their own borrowings against revenue?

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Lars Andersson: There are no capital grants; it is split between their own tax income and the public. In Sweden I initiated the Swedish Local Government Funding Agency in 1986 and was the first CEO until 2001.

Robert Neill: This is Kommuninvest, isn't it?

Lars Andersson: Yes, that is right. They have a dominating position in the market to lend to local authorities now. They totally changed the markets as well, because when we started Kommuninvest—and this could be something for other countries as well—there were really high margins to local authorities. That totally changed when Kommuninvest started its activities. Being involved now as an adviser to the Local Government Association here in England about a bond agency, this is a really decent translation project. I think it is essential to continue with this project and follow in the footsteps of France right now where they have introduced their own agency.

Q16 Robert Neill: I noticed that. Is that based on broadly the Kommuninvest model?

Lars Andersson: It is. Several features have been taken from the Kommuninvest model and one very important one is that it is an organisation, as they say in France, of deux étages, with a mother company where you have local politicians on the board, and then you have a daughter company where all the financial activities are done with a professional board. So it is a way to keep the political interest in the overall strategy and also the admission of local government into the organisation, but the real financing, of course, is a job for professionals.

Q17 Robert Neill: All treasury management and so on, yes. Are the bonds themselves secured essentially against the income stream that the local authorities have from their taxation, or against their asset base, or a bit of both?

Lars Andersson: It is a general obligation for the local authorities. There have been several trends where you have income streams being pledged against bonds, but I don't think that is a really good idea because that takes out the good parts of the security of the local government and leaves the rest in a not so good position.

Q18 Robert Neill: Sören, do you have any thoughts on this? One of the issues that I had raised with me when I was a Minister by our finance industry and is part of the public debate is that in the UK we have the rules about the public sector borrowing requirement and we also have the Treasury's accounting rules as to what borrowing goes on to the public debt, on to the public books. The argument has been that because in the UK the Government ultimately will be the lender of last resort to a local authority and will ultimately underwrite its borrowings, municipal bonds would count against the public borrowing, at a time when for other reasons of public policy we wish to reduce it. Do you encounter that same problem in Sweden and, if so, how do you get round it, or do you have a set of public accounting rules that are different from our Treasury's that mean that obstacle does not arise?

Lars Andersson: If you compare local government borrowing to central government borrowing, local government borrowing is so small. I think here in the UK the local government borrowing is around 5% of GDP whereas the central government's is 80% or something, so it is really very small. We have not had that sort of a problem in Sweden while we were setting up the agency, but

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again in all countries where I have been working as an adviser to set up agencies, the ministries of finance were against it. That happened in Sweden, that happens in France now, and I know that the Treasury here is not too keen on the project either. I think it is natural because the civil servants of these ministries of finance are there to preserve a system, but then again I think that it would not interfere in the overall policy of borrowing for a country.

There is one question in your report where you talk about local government bonds and the risk for default. I would say that this risk is very small because if you have a local government funding agency, then you have peer pressure. You admit local government into the organisation after certain criteria and the other local government oversee that no local authority fails to live up to the standards. The oldest local government funding agency in Europe is the Danish one—it is 110 years old. It has had joint and several guarantee since the beginning. They have had no defaults. None of the other agencies have had any defaults.

Q19 Robert Neill: That is very interesting. Sören, any thoughts from your perspective as an ex-Finance Minister?

Sören Hüggroth: Lars and I were communicating very much when I was in the Ministry of Finance during the 1990s. Actually there was one default in one municipality of Stockholm but it did not reach the formal part of a default process. It was a situation that would have been very damaging for the whole public sector, and especially for the local government sector, had the state not intervened and put money in this municipality. It took money from the whole municipal sector so it was not actually state money.

When I was working in the Ministry of Finance we were very positive towards this arrangement, the Kommuninvest, because it put pressure on those municipalities taking part, who were members of the Kommuninvest, to keep an eye on each other. Every year I was at the major rating institutes, Standard & Poor's and so on, and all the time they asked me if the Government will support an individual municipality if it has economic problems. The answer of, course, was yes, and that affected the rating outcome for the local government. So even though it was not spelled out in some formal document, it was a common understanding—Minister of Finance, Parliament, local government, rating institutes—that the state was there at the end of the day when needed.

Q20 Robert Neill: That is very helpful. Have you spoken to the Local Government Association in the UK about their proposal? You are doing some work with them, aren't you?

Lars Andersson: I am an adviser to them.

Robert Neill: So you are well fed into that, which is interesting.

The final thing I was going to ask was a different thing, and that was about your equalisation arrangements. We have an equalisation system in the UK as well, which is broadly on a needs versus resources equation. Yours is done slightly differently with a guaranteed percentage of income. The argument that is sometimes made to me—although I think everybody agrees you need it for all the reasons you set out—is that some forms of equalisation model can be a disincentive for local authorities to maximise efficiency. If you happen to be comparatively well blessed with resource you don't get much reward for being efficient in the way in which you use those resources, and that sometimes lack of resource can be used as a means of masking a desire to drive

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out inefficiency because you think you will be compensated through the equalisation. Do you come across that in your system and, if so, how do you deal with it?

Sören Hüggroth: I have been working very much with the equalisation system and at the end of this process of 10 or 15 years I was bored so I decided to do something else. It is a very technically complicated system so of course these kind of risks may occur, but this has been a discussion item for decades. The solution to avoid this problem of inefficiencies is that—we have two kinds. You define a standard cost that is the average cost, for example, for one pupil aged 10. This concept of the standard cost means that you get a certain sum of money for every individual who is part of this system. If you are ineffective then the taxpayers in the municipality will have to pay and if you are efficient then you will gain from the system because you will get these standard costs.

I think the discussion about disincentives nowadays mostly centres around the other part of the system, that is income equalisation. We have cost equalisation and income equalisation. The argument in the discussion concerning income equalisation is that if you have this guarantee of 115%, which is the level at the moment, then you will have no incentive to get more taxpayers to the municipality, and there has not been a good solution to that problem, I must say. I think personally that maybe they also say that this income equalisation creates disincentives. I think they exaggerate this argument because still you favour by getting new taxpayers. I have not met one local politician who doesn't want another inhabitant in the municipality unless it is a person with heavy social problems who will have costs.

Robert Neill: That is very helpful. Your point about costs will be familiar to those of us who remember standard spending assessments. It sounds like a similar concept. Thank you. That is very helpful.

Chair: Gentlemen, can I be cheeky and ask whether we can keep you a little bit longer than 11 o'clock? Would that be okay, because I think we are on a roll here? This is absolutely fascinating stuff and it is real rather than theoretical. You are doing it and so it is always very instructive for members to hear.

Q21 Fabian Hamilton: Can I come back to the role of central government in local government? You mentioned earlier, in your introductory remarks, that it is a constitutional relationship in Sweden, set by the 1974 constitutional settlement, I think you said. In that case, what relationship is there between central and local government in terms of directing the actions of local authorities, their responsibilities, which I assume are set by the constitution, or indeed setting the powers they have in relation to raising taxes? Are all these defined within the constitution or are they fluid in any way?

Sören Hüggroth: In the constitution, as I said, you will find the basic principles, but there are some principles that are untouchable, like the principle that local authorities and county councils must only be ruled by law. If you are a Minister you cannot take the telephone and call the local councillor and tell him what to do. That is impossible. It is not permitted by the constitution. So you have to have a law in order to direct individual local authorities and county councils. Then of course the law may contain rules giving authority to a state agency to have further rules for the implementation. In education, for example, there are lots of rules concerning what the pupils should learn and so on and in social services you have not so many binding rules but you have recommendations from the agency of social welfare.

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Q22 Fabian Hamilton: May I interrupt you for a moment just to ask what happens if there is a conflict between what Parliament sets as a law for the local authority and the constitution? Here in the UK you often get elected councillors saying, “We’re elected by the local people. You, in central government, are trying to dictate to us,” but of course we have no constitution that is written as such and therefore it is very unclear who has the upper hand—Government usually.

Sören Häggroth: I have seen in your draft code that you are laying down some rules concerning legal arbitration. We don’t have that kind of arrangement in Sweden. They have it in Germany, for example—they have a constitutional court. If a local council is not doing what the national government wants or what is stated in the law, first there will be a reaction from the state agency responsible and in some cases there will be a case in court, but in those cases where you have an arbitration in court, then you will often have a private citizen who doesn’t get home care, for example, to the extent that he or she thinks is reasonable; then he or she may go to the court and say that this is not an implementation of a specific law. What is important here is that direction comes from law, ordinances and inspections, and inspections are being reported to the local councillors. It is very seldom that state agencies can put another decision in the place of a decision made by a local council. If you have an individual right as a citizen, you may appeal a decision that you are not satisfied with to a special court.

Q23 Fabian Hamilton: How would you characterise the relationship between central and local government in Sweden? Is it a balanced relationship? Is there much friction? Is there any friction?

Lars Andersson: I think that local politicians are very strong in Sweden. Sometimes you might say that they are not regarding the different parties; they are local politicians first and foremost. So they are quite strong and that keeps the Government from trying to change too many things because within each party you have a strong local government politician group.

Q24 Fabian Hamilton: Does that translate to the electors’ perception of local and central government? All MPs in Britain, I would say, get people coming to them with local government issues. I get a lot of housing cases. I have no responsibility for housing whatsoever. Would that happen in Sweden? Do the electors realise who is responsible for local government issues and for national government?

Lars Andersson: As I said before, they have been doing inquiries about this and there is some ignorance about who is doing what. I also think that when you have problems in one sector it is natural that this will come up to the national level as well. Now we have a debate about healthcare, the free school system is very much debated in Sweden, and of course that could lead people to centralistic solutions in a way. It could happen that a question about education will come to Members of Parliament and to local government.

Sören Häggroth: There are frictions all the time between national and local government, especially concerning the financing of services and education. This finance principle that we are talking about is a starting point for many discussions. National governments always want to make reforms and changes in the local government services. Then you have the discussion about who will finance these changes and to what extent will the state finance it. Those kind of issues are on the political agenda all the time. When I was State Secretary at the Ministry of Finance we had quite formal negotiations. Of course we had almost day-to-day discussions with leading politicians but we also had negotiations, which we put down in documents and those documents were made public. If you

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really want to study how you can create arrangements for solving conflicts, I think Denmark could be interesting for you to study. They have very structured and organised negotiations between the Government and the association of local authorities. We don't have that in Sweden at the moment but we used to have it.

Q25 Mark Durkan: You referred to both tiers of local government in Sweden and they have, as I see it, different responsibilities. There is an emphasis on health at the county or regional government level. I am assuming that is on acute services, the big costly services like hospitals with bigger catchments, but there is also reference to public health and welfare and elderly care at the level of the municipalities. I represent a constituency in Northern Ireland and we have a slightly different model for delivering health and social care there as from here in England, but nevertheless it is in that area that huge challenges are faced no matter what the model is. What do you find are the main challenges facing local government in Sweden in relation to health and social care at the different levels of government? It is very hard, given the importance of those issues in people's lives and the changing dynamic in terms of demand for services and technology. Who takes the decisions there for policy responses to those ever changing challenges? Where is the policy dynamic in Sweden when it comes to confronting new challenges?

Lars Andersson: We do have this demographic challenge that almost every country in Europe is facing. The UK and Sweden are in a bit more favourable position than, for example, Germany, because the population is increasing in Sweden as well whereas in Germany it is decreasing and they are getting so many in the elderly groups. I think the healthcare system will be a great challenge for local authorities. We have been discussing whether some parts of the healthcare system should be taken care of by the central government—that is the specialised hospitals—because otherwise now there is a question of different types of health services in different parts of the country. There is a big discussion about that. Maybe it is a requirement in the future that you are a bit more centralised when it comes to the specialists, because in healthcare you find new methods and new ways of doing things and this needs to be co-ordinated in a better way than it is today I think.

Q26 Mark Durkan: How do you do that without creating tensions? Who takes the lead? That is why the question was asked in terms of the policy dynamic. Does a national politician take that lead saying, "That is what should happen," and does that then create sensitivities at the level of local government or other vested interests that relate to local government?

Sören Häggroth: Even if healthcare and care for elderly people are responsibilities for local authorities and county councils in Sweden, I think the state will help to come up with the financing of these increasing demands for services. If you look at the Nordic countries, which I have been doing lately, there is a very interesting tendency to stimulate innovations. The state has taken initiatives to increase innovations especially in the medical services to get new drugs, methods of treatment, processes and so on, and in those cases the state is very active in introducing this kind of new methods of working with the healthcare services. So even though local authorities and county councils will have big responsibilities to meet these demographic challenges, I think the state must be very active in supporting in different ways, financially, new methods and so on, in order to have a good situation for the private people.

Lars Andersson: We were talking about incentives before and in a way you might say that the Swedish local government have a situation that is a bit too good. Their income has increased every year and therefore there is a lack of debate within local government about these challenges. Local

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government in the UK have had a very clear alarm clock when you had the cuts in government grants. The only advantage of that is that we are seeing so many different new ways of doing things in UK local government, and especially one thing that I have been trying to see whether we could do is co-operation between different local governments. I think you have gone much further here in the UK when it comes to these questions. We think, “We get a little bit more money each year, we can do it the same way,” and this is a problem. The lack of debate in local government about future challenges is a problem. We are trying to stir up that debate with our writings.

Q27 Mark Durkan: That was partly what I wanted to see, because I am hugely interested on the financing end of things, as the Chairman said, as a former Finance Minister, in which capacity I used to tell people that I didn’t suffer from depression but I was a carrier. The issue does arise that in these services when you are looking to change service models, somebody is going to have to take a lead to say what we have done up until now and the familiar service sites we have are going to have to change for something else, and that can lead to controversies and difficulties. It is really where the policy dynamic for taking on challenges lies in the model that you have been describing, that sort of thing, that I am basically trying to find out. Finance brings its own challenge and the management of change and necessary change also brings tensions at any level of government, but particularly when you have different levels of government involved. With the synergies that you are talking about between local government, do you think you have seen more policy synergy and initiative going on at a local government level here than you do in Sweden?

Lars Andersson: I think the UK are going further when it comes to co-operation between local governments. There are several things that local governments do that could be very easily done together with others, like the whole administration, the accounting, for example. It is strange that every small local authority have their own accounting department while they could co-operate with maybe three or four others and do this together, because it is the same. I think there are efficiencies to be made in that area.

Chair: Bob, had you concluded your questions about local government borrowing? Did you want to come back on anything?

Q28 Robert Neill: One thing I was going to come back on was that when we were talking about the government borrowing and so on, you explained the political view you have taken in Sweden: although it was an issue it was not such a big issue in terms of the overall debt and the borrowing; it was something you were prepared to deal with. I was not quite clear, are you aware of these Treasury accounting rules that we have in the UK and are they the same? Maybe they are not, so perhaps that obstacle does not arise.

Lars Andersson: You meant the prudential—

Robert Neill: Yes, both prudential and the basic concept that anything that the Government is ultimately the lender of last resort on must go against the public sector’s borrowing requirement. If local government raises a loan in the UK essentially it is counted as the Government’s borrowing because the Government underwrites, ultimately, the debt for that. Is that the same concept you have?

Lars Andersson: Of course it is all public debt in Sweden as well, but I think this is viewed as a competence for the local government to borrow money for investments and there is no debate of that concept in itself. I think the debate when Kommuninvest was formed was whether this

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organisation could be risky but not a debate about the basic questions. Maybe while talking about a bond agency, one of the reasons in England to form a bond agency would be that local government agencies in Europe issue bonds—if you look at the Nordic ones and those in the Netherlands, they issued bonds for about £62 billion in 2012. Part of this is bought by British pension funds because British pension funds have no alternative to buy into local infrastructure in the UK because there is no agency. I think this is a very good reason why you should form one here in England as well.

Q29 Robert Neill: Before you set up the bond agency in Sweden, did you have anything like our Public Works Loan Board arrangements, which you will have seen with your work with the LGA?

Lars Andersson: Not really. I started to work in local authorities in 1975 and at that time you had to have central government permission to borrow but that was taken away only a couple of years along in the role that I was working in. You had several groups or types of investments but there were some where you had to have central government permission.

Q30 Robert Neill: Was that done on the nature of the investment and therefore the risk or the quantum of the investment, the amount?

Lars Andersson: I really can't remember now.

Robert Neill: It is a long time ago and so you have all moved on from it.

Sören Hüggroth: Yes, there were some investments that required permission by the national government.

Lars Andersson: But that was taken away in the 1970s—1978 or something like that.

Q31 Robert Neill: One of the issues that is sometimes raised with local authorities and the Public Works Loan Board in the UK is repayment penalties. Do you, through Kommuninvest or through the French one that you are now working on, levy repayment penalties in the same way that you will have come across with the Public Works Loan Board in the UK? It is seen as a disincentive by some councillors.

Lars Andersson: We haven't had any late payments in the history of Kommuninvest ever. If there were to be late payments they would probably have some type of penalty, like the banks would have a penalty on that or an interest rate, but we haven't really seen it.

Q32 Robert Neill: One of the things that is said is an advantage for a municipal bonds agency is diversity of funding sources, so it creates competitiveness. Can you give us a sense of how that has worked and how that has been beneficial in your Swedish model?

Lars Andersson: An agency gets to a size where it can borrow in many different markets. For example, Kommuninvest borrows in the Japanese, US, euro markets—they are borrowing in every one of the major markets and of course the domestic market as well. This has led to them going through the recent crisis without any problem. Even the banks have turned to Kommuninvest to ask them to take over the loan portfolio that they have to local authorities to help the banks out with this. Even a big city can't have that type of diversification. In the case of Kommuninvest, we are talking about €15 billion of borrowing every year. It is a large borrowing requirement and they can

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go to different markets, they can use different instruments, and there will almost always be some of these that will work.

Q33 Chair: Presumably you are very familiar with the fact that in the United States, for example, there is a \$1 trillion municipal bond market. The comparison with effectively not having a bond market at all in the UK must be a stark one—there are very clear differences between the two systems. It just demonstrates that it is possible to raise that sort of money on the back of your own credit rating as a local authority.

Lars Andersson: Could I make a comment on that? I know the US municipal bond banks quite well and I have been seeing them in some of the states. The US system is different since municipal bonds are tax exempt and that creates a special type of market, you might say. But looking at the US system of bond banks, we were saying that they don't use competition that much. They tend to have very long contracts with banks and very high costs for legal work. The Canadian agencies are very much more like the European ones. There are agencies in the provinces of Canada, in Alberta and British Columbia, so they are a closer relationship to the European ones.

Q34 Chair: Just before I ask Andrew to come in, a quick question about our draft code that you saw in the documents we produced. You have alluded to it, so clearly you have had a chance to look at how we anticipated that one way of ensuring greater devolution to English local authorities was the establishment of a draft code in law that would be defended by a rather obscure, arcane British constitutional thing called the 1911 Parliament Act, which would allow our second Chamber to stop anyone from taking away general powers for a local body—that is the best we can do without a written constitution. Have you any views on the structure of that code? We do keep these things under constant review. Have you had a chance to look at that and do you have any comments?

Lars Andersson: If I could make some general comments about the report that you have written, I think it is a very good report. There are some points in it that I want to specifically give emphasis to. First, it is to simplify the system—it says somewhere that it is an overly complex system, and looking into it as a foreigner I can say that it is not that easy to understand every part of it, so simplify for higher efficiency. I think you are talking about a cultural shift and that is also very important. This is one thing that we have been discussing while we were doing the bond agency questions in different countries. A focus on accountability is also another question. This would give a better focus on accountability because, as I said before, local government should not prove to Whitehall that they are doing a good job; they should prove it to the voters. Power and finance must go together and that is one thing that you have in this. For me they are the main points in this. I think that Sören had a closer look at the specific parts of the code.

Sören Häggroth: Just a few remarks. I think the general principles laid down in this draft code are very much in line with the European Charter of Local Self-Government. It is also very much in line with the political thinking in the Nordic countries concerning the role of local governments. Speaking from my experience of ministries, I will imagine you will have some problems in Whitehall when you confront these colleagues of yours with these principles, but I think they are excellent principles and I would like us to have that kind of legislation in Sweden. I think that would be very good.

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Then there are some articles that I do not understand completely. For example, you mention in some articles that there will be a possibility for legal arbitration between local councils and national government, and I was just wondering what kind of arbitration is this? The European Charter demands those kinds of arrangements. We do not have that in Sweden, and we have had some problems with the Council of Europe. If there is a real political conflict between Parliament and one municipality, then there can be some difficulties in having a legal court to settle the dispute.

I also wondered a little bit about the section dealing with the boundaries of local authorities. You say that it is an issue of councils and their citizens to decide the boundaries. It is very important for local councils and citizens to come to conclusions, but at least in our case in Sweden, and in the other Nordic countries, the Government also has a role to play. Of course, the Government is responsible for the services and cannot allow one municipality to be depopulated and unable to fulfil its commitments to the citizens. Maybe that is something to consider.

Then I was a little bit surprised, I must say, by the role of local referendums. Maybe we are outlaws in this respect in Sweden, but there are local referendums concerning different things, not taxes, not boundaries—sometimes boundaries, actually.

Lars Andersson: But they are always advising. They are not deciding—

Sören Hüggroth: Yes, advising in the referendums. I think you put a very heavy role on local referendums, and I am sure you have good arguments for this, but I have put a small question mark when I have read this part of the draft code. Then I wondered about—

Q35 Chair: Sören, I will answer those questions very briefly, but perhaps you and I could take those further outside.

Sören Hüggroth: Yes.

Chair: Just to say very quickly, in terms of whether the Executive here, the Government, would tolerate this or not, we are being very careful—very careful indeed—to ensure that they know everything we are talking about and discuss those things. We have had a number of meetings, as a Committee, with Ministers, and a number of seminars. We have also had a Chatham House rules, as we call it—completely off the record—discussion with the Secretary of State and also the Shadow Secretary of State and with officials in Government. In a sense, we are deliberately going slowly because we are trying to not come up with a final answer here but to engender a debate, because all parties, whatever their posture in the House of Commons Chamber, are interested in this area and this balance between the two. I think that has been a very positive and productive process.

On arbitration, I think you are right. It is nothing more than what is a legal framework if there is a dispute. If central government is given clear rights and local government is given clear rights, one would hope, rather than be a winner-take-all solution, it would be a much better culture of interaction, rather than one party being completely dominant, as it is now, or one institution being completely dominant. At the end of the day, of course the rule of law prevails, and there would be a discussion about that in the court if necessary, but it is almost a symptom of defeat if you get to that point.

On the boundaries, we are not suggesting doing away with our existing local Boundary Commission, but I think that was much more in view of: rather than wait for a big change for the boundaries, if one local authority agreed with another that a polling district is much more suited, because it is isolated by a motorway or a river, to be with another place then that sort of interaction could operate on a mature level. There is no intention there to depopulate an area or gerrymander.

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There are very strong and existing rules to prevent that, which would continue the last one about referenda.

I do not know which version you have there, but colleagues around the table were anxious about the concept of lots of widespread referenda in local government occupying a lot of time. Where we were keen to get people's consent for local authority issues was where we suggested that, providing it is legal, a local authority should be able to supplement its resources by whatever means it feels it can win the local electorate over to. It is an insurance policy against individual local authorities saying, "Suddenly we are going to impose a local income tax," or this, that and the other. You must take people with you. I think we have finessed it so that it was either very clear in the manifestoes that we put the parties locally or operate on the basis of the proposition that we talked about locally.

I think I remember using the example—it is something I care about greatly— of the development of babies, children and young people. If you wanted an early intervention programme in my city of Nottingham, which was several million pounds, you would need to persuade people. You could use a proposition and people could vote on that, for and against, or you could put it in the manifesto and be very clear that it was a spending commitment.

Sorry if that is a rather hurried run-through of those points, but I would love to take those further with you outside, if I may, rather than delay the Committee.

Q36 Mr Turner: How are the rights of local authorities in Sweden protected from attack by the national policies?

Sören Häggroth: As I said, this is a sensitive point in our implementation of the European Charter, because the charter demands that the legal rights of local authorities should be protected by the legal system. We do not have that kind of legal system. They have in Germany, for example, a constitutional court to which local authorities can go if they think that a special law made by the Bundestag is violating the rights of local authorities. It is just to admit that this is a weak point in our system, and that is the reason why quite recently, one or two years ago, there was a new article in our constitution—what I call the proportionality principle, because it means that the Government must ask the legal advisory board for their opinion if they make new legislation that affects activities of local authorities. It is a weak point, I admit that. There is a fairly great agreement among the political parties not to have legal possibilities to overrule laws by Parliament.

Q37 Mr Turner: On how many occasions would a local authority, if necessary, go to court to declare that what the Government is trying to do requires a change of law or is not allowed to be done, or do you not get involved at that sort of level?

Sören Häggroth: If we had a constitutional court—let us call it a constitutional court—I think there would be lots of appeals from local authorities.

Q38 Mr Turner: We do not have a constitutional court but we have the same problem. They go to an ordinary court.

Sören Häggroth: Yes, a local council may go to an administrative court but the court cannot take it up as a case against the Parliament. It is not possible. The only way to appeal legislation or an

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ordinance made by a state agency is to go to the Government and to the Parliament and try to make a change.

Q39 Mr Turner: I am not entirely clear. One cannot attack the Parliament through the courts, that is not allowed, but one can have a go at the Government. Is that not the same case in Sweden?

Sören Häggroth: No.

Mr Turner: No. What is not allowed in Sweden, which is allowed in—

Sören Häggroth: Yes.

Q40 Mr Turner: What about people's rights to both the local authorities and Governments? Can they approach the courts to sort out their treatment by them?

Sören Häggroth: Yes, they can, but there are certain rights in the legislation, for example rights for disabled people to get support of different kinds. There are rights for elderly people; if they do not get enough home services, they may go to the court.

Lars Andersson: A citizen of a local government could make an appeal on any decision made by that local government by saying that it does not follow the rules of the Local Government Act.

Q41 Mr Turner: In fact, what local government would do in England, I suspect, is they would find a person to stand in their stead. The Government is not allowed to say, "We will help the local authority," but the courts would be able to get an individual to stand in their stead and require the same action by the Government.

Sören Häggroth: What the individual citizen can do is to make the administrative court change the decision made by the local council, so if you do not get home services for your needs, then the court may say, "Through the local council, you should give this person home services of this volume." The local authorities cannot use an individual to change the legislation. We have a system of individual rights. You can go to the administrative court to get that right, but you cannot use court proceedings to change the legislation. That is not possible.

Q42 Mark Durkan: Just to clarify and take that alongside something that you said earlier, Lars, you made the point that, for instance, in the area of social services, there were—you used the phrase—"not so many binding rules" from national government on what local authorities would do in the eyes of social services. What I am hearing here is that if a citizen was going to legal appeal or legal challenge in relation to social services, they would be doing that on the basis of a national law.

Lars Andersson: Yes.

Mark Durkan: So they are doing that on the basis of a national law. In that context, where a national law can basically help to set a lot of the standards and the requirements and expectations, how do you avoid the temptation for national law to end up setting too many binding rules? As I see it here, once a situation arises in a particular locality, whether it is Mid Staffordshire Hospital

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or something else, then the reflex is, because there is national media attention to it and everything else, that all sorts of national standards and laws are set for everybody else. What is it that puts the brake on that in the Swedish sector?

Lars Andersson: There is of course a great temptation to have centralistic solutions to when there is a public debate about something. I think that the main question here is that we do have strong local politicians. This goes in waves, of course—centralisation, decentralisation—and in Sweden we have had very much decentralisation and now we are a bit on the centralisation side. Then again, it is a power balance between central—

Mark Durkan: It is like driving, and you crash if you try to stay straight on it.

Lars Andersson: Let me say also about appeals. It is not only appeal for individual rights. You can also make a complaint about the decision made by the local government. For example, if they are giving benefits to a single company, then you could make a complaint about that. Certainly all the rules in the Local Government Act could be appealed by somebody living in that local authority.

Q43 Robert Neill: I am interested in your point about legal challenges. I do not know if you are familiar with the concept in the UK of judicial review. It is a concept that says, basically, that if an Act of Parliament or law is passed by Parliament it cannot be challenged by the courts, but sometimes that Act will give power to a Minister to take administrative decisions or issue regulations to local authorities or other bodies. Equally, the Minister may take a decision himself, or a local authority may take a decision as a public body under the powers that it is given. All those in the UK are capable of being challenged in the courts through what we call judicial review, and a local authority can challenge a regulation placed by a Minister. You do not have that concept. In the UK they have to show certain legal things—that it is either outside the powers or the Minister has not acted in a proper process, did not consult properly or something like that. You do not have that concept. I suspect you do not in many continental jurisdictions.

Sören Häggroth: Yes. We do not have exactly that kind of system that you have. First, there is the law, and then within the law you may have routes that give the possibility for delegation of the powers, but delegation can be made from the Parliament to the national government, not the individual Ministers. We do not have that system. The law may give delegations to a specific state agency and it may give delegations also to individual local authorities, but it must be very clear. You cannot delegate to one individual, not even to a Minister or a director general or a state agency.

The only cases I can think of where you may have a judicial review are if the Parliament is not very careful in its legislation job and it creates laws that conflict with each other. Then you may have some individual go to the court and ask the court to—but that is a very exceptional case. I have never heard about it in Sweden.

Q44 Robert Neill: If I was an individual and a power had been delegated to the Government or to a state agency and I felt that they had not used that power properly in accordance with the delegation, would I be able to go to a court and challenge it?

Sören Häggroth: No. Through my experiences in the Council of Europe and the European Union, I have come to the conclusion that Sweden, and also the Nordic countries, are more political than some other countries, especially the United States but also the UK. There has been consensus

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among politicians not to give too much power to legal arbitration or judicial courts. There have been changes now that we have come into the European Union because legislation of the Union demands legal arrangements in many cases, for example planning, building permits, environmental issues and so on, but not so much in the area of social services.

Q45 Mr Turner: The European Charter of Local Self-Government has all 47 members signed up. Do you think it has made any real difference to how relationships between central and local government have evolved over the past three decades?

Sören Häggroth: I do not think the charter in itself has had any major impact on the development in Sweden, but since I was quite active in the Council of Europe during the 1990s I could see that it had a very large effect upon the development in the former communist countries. It set a standard. Of course, with the tradition they had in those countries both before communism and during communism, still many countries chose very centralised solutions; they did not want to change the system of very small municipalities, so instead many of these countries chose to create a new regional level to take care of basic services and so on. Although they were influenced by the European Charter of Local Self-Government, I think in many cases they chose solutions that maybe were not so much in line with the charter. Still, when they came into the Council of Europe after 1989, they studied the charter and it started many reform projects in the central and eastern European countries.

Q46 Mr Turner: This is perhaps too difficult a question, but if Britain is there, and Sweden is a bit more democratic in the way they are, one would like to know where are they different countries. Perhaps that is something that—

Sören Häggroth: You mean when it comes to local self-government?

Mr Turner: Yes.

Sören Häggroth: I think that England is very different from the rest of Europe.

Mr Turner: Really?

Lars Andersson: The rest of western Europe, that is. You have a much more centralised system here. As I said, France was considered to be a centralised country, but if you were to look at the two systems, the UK is very much more centralised, I think. Comparing it with the Netherlands, Germany and the Nordic countries, still you would have the UK there and you would have the rest of western Europe here.

Sören Häggroth: What is interesting in the UK is that, according to the report that we have read, you did not choose to strengthen the regional level. You have chosen to keep a strong local level instead of creating a strong regional level. As I said, in central and eastern Europe, Spain, Greece, Italy and so on they have chosen another strategy. That is to keep an old, obsolete structure of small municipalities with very few functions, and instead created a regional level. In a way, I think the UK is still quite democratic because powers have been kept on the local level to an extent that you will not find in so many other countries. Of course, the central state government and the control of local authorities is quite strong in the UK.

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Q47 Mr Turner: Is it different in Scotland, Wales and Northern Ireland, compared with England?

Sören Häggroth: Yes.

Q48 Mr Turner: England has no regions. Northern Ireland does not need a region, in a sense, because they have a national Northern Ireland and local councils. Which are stronger, the national Northern Ireland body or the local bodies in Northern Ireland?

Lars Andersson: I do not have the knowledge about that.

Q49 Chair: Sorry, Lars, have you finished?

Lars Andersson: I just wanted to raise another question about how powers of local government are changing also as an effect of new public management ideas. We can see that in Sweden the Conservative Government has introduced a number of reforms with public choice reforms. For example, a question that I know you have introduced in the UK as well is a free school system. I think we included a picture about how it works in Sweden. We have the centralised licensing of free schools by the school directorate, as I think it is called. The local authorities do not have a say in the establishment of our free schools but they have to pay, and they pay the average cost of a pupil in the local government schools, which could be very problematic from time to time because if there needs to be a new school built in the local government, that would ultimately raise the grants to the free school even though they have not done anything. This is a way of taking away a bit of our power, and also the possibility to plan education locally is getting very much more difficult when you have a system like this.

There is also a choice system within healthcare. Healthcare is a national system but when it comes to care of the elderly, the local authority can choose whether to introduce this or not. This has taken away some powers of the local authority, and one might argue that it has given power to the individuals, but it makes it very much more difficult to plan and to manage local government activities.

Q50 Chair: Thank you. I am going to take advantage of Bob being present, because he may remember this, and go back to Andrew's central question about the European Charter of Local Self-Government. It was in the time of a Labour Government, and I recall they had a really nice party at the then Department of Local Government, and lots of local government elder men and mayors and whatever rolled up and had their glass of white wine and a sausage on a stick, and they agreed that they would sign up to this charter. Then I do not think one iota of real change happened since that moment because of signing up. Bob, you lived some of that history so you may know better than me. In a sense, I am using my witnesses to ask Bob a question. I do not think a great deal changed, did it, Bob, as a result of that?

Robert Neill: I think it is probably fair to say that there has never been a great political appetite in the UK to sign up to a charter, but that partly comes back to a different constitutional setup here. If you do not go down the route of a written constitution—and not all of us do wish to go down the route of a written constitution—the incorporation of the charter runs into some obstacles. The Government has always said that it meets the standards of the charter in practice if not in theory,

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though it is a matter of dispute. I am sure the Local Government Association will—I know you may have come across that yourself, Sören.

Sören Häggroth: Yes, I remember that discussion very clearly from the Committee of Local and Regional Authorities, of which I was Chairman. In the end, it was a little bit embarrassing for the representative of the UK—I do not remember his name—because the only two countries in the Council of Europe that had not signed this charter were the UK and Turkey, but for different reasons of course.

Q51 Chair: I think it is giving local government the view that unless we put something in law and in statute, that should be the role of local government and it will not ever change very much because of the centralisation you referred to earlier.

Sören Häggroth: Maybe I devalued the importance of this charter. I know I am not following exactly what is happening, but at least during the 1990s the Council of Europe made reviews of the different countries and you had to stand up and tell the Council of Europe what you were doing in order to fulfil your commitments. I think that process maybe was important in some countries to initiate a reform process, not least in central and eastern Europe.

Q52 Chair: We are also encountering a very novel problem for us in the UK. As we devolve power to the nations of the Kingdom, the question is being raised around the power of local government in the devolved nations: the Scottish Parliament, the Welsh Assembly, Government in Northern Ireland. It raises this issue of what is called double devolution. There will be some people who will say it has been good that power is being devolved to the nations, but actually it stopped at the capitals of those nations, rather than has found a double devolution to empower and re-energise local government. Is that something that you feel is appropriate and justified? I am going to ask Mark to come in as well as my third witness on this one.

Sören Häggroth: Sweden has never been a nation with nations, as you say, or colonies, as they used to say 100 years ago, so we have not been into this problem. We have had a very heated debate since at least the middle of the 1980s about the relationship between the state and the regions. The debate started when we had these county councils, who are responsible for healthcare services and public transportation, and during the 1980s there was a tendency in Europe and in the European Union to strengthen the regions. The county councils and their associations started to argue that the county councils should have more powers given from the state administration in regional policy, transportation, planning, transport planning and so on.

What happened was that the Government and Parliament only created two regions, and that was the region around Gothenburg, which is the second biggest city, and Malmö, which is the third one, so there were regions created. This has been another kind of issue but with a regional dimension, but we still have not changed our system very much because the local authorities also had a mistrust of these new kind of regions that were discussed. They were afraid that if you create these regions, the Parliament will not transfer power to those regions because they want to keep it in the state system. The local authorities were afraid that if you have these strong regions, directly elected, with taxation power, they would also begin to try to take over responsibilities, for example in secondary education, from the local authorities. This has been a very conflicting issue. Of course, it is not in the same character as you have with your nations, but there have been very strong tensions in the Swedish system between regions wanting more powers and local governments and national

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governments who were quite satisfied with the existing order of what I call the decentralised welfare state.

Lars Andersson: One can say that right now this is at a standstill. The question is dead. There will not be regions in the way that they suggested, and we think that is a good thing. We think that the local democracies should be built on municipalities.

Q53 Chair: When we did our report on that, we had discussions around this, and I think there was quite a strong feeling among the members that the localities themselves should be the decision-making body. If they wish to make some sort of regional body to look after a particular thing, they should create it and pay for it themselves, so it would be a very bottom-up democracy. As you know, we had a rather belated experiment to look at regional government in England, which was very much top-down and very much after the devolution. Energy around the Scottish and Welsh referenda had long dissipated. If ever there is to be regional government in England, I suspect it will be homemade by local government.

I do not know whether finally, Mark, you wanted to take up anything in terms of, is local government as healthy as it should be in Northern Ireland, for example? Is there a third expert witness here? With the Deputy First Minister and the Minister of Finance in Northern Ireland, I think we have our own witnesses on the panel.

Mark Durkan: Without delaying anybody too much, as Deputy First Minister we did inaugurate the review of public administration in Northern Ireland, which was meant to be looking at moving more functions to local government. It was also meant to be dealing with a lot of the intermediary administrative arrangements in Northern Ireland, because you had regional government even prior to devolution and democratic elections. When there was direct rule, Ministers from here were running regional departments of the Northern Ireland civil service. Local government had very limited powers and functions. We used to talk about the four Bs—bins, bogs, bodies and balls—being the responsibility of local government, but then there were these other intermediary bodies, particularly with health and social services and education, and they would have covered several local government areas. The idea was, now that we had democratic devolution, should we look at how we reorganise these?

Some 10 years later, that review of public administration has still not fully worked out, but we are moving from 26 councils to 11 councils, who are meant to be elected in shadow form this year. They are getting very few extra functions. Those extra functions that they are getting are not very clear, and whether or not they get resources to go along with the transfer of responsibilities is not very clear either, so you will have the whole issue about central grant versus own resources and so on. So it has been very limited.

What people here talk about as Whitehall keeping its grip, I have seen both as a Minister and just as a political practitioner in Northern Ireland. It very much operates at regional government level as well. Civil servants tend to be very retentive. Departments are very jealous about “They know best, they understand these things and other people don’t.” That was true even when I was Finance Minister, even handling something like the second European peace and reconciliation package. The first package, which had happened before devolution, was very much delivered through what were called the intermediary funding bodies and also through locally-based partnerships, which were based in the local government areas but did not just involve local government. They involved other social

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partners. It was very successful. It was many people's first experience of partnership work in Northern Ireland, so it helped the peace process.

When it came to us modelling the second peace programme, all the democratically-elected Ministers to whom I was bringing papers at the Executive as Finance Minister were saying, "Now that we have democratic institutions, we don't need local delivery mechanisms and we don't need the intermediary funding bodies. We know best." They were all reading out of scripts provided by their own civil servants and their own departments. This included my own party colleagues. I was the one, as Finance Minister, bizarrely, who was trying to say, "No, we have to be doing this through local delivery. We have to be giving more to local government."

Even in the review of public administration, as Deputy First Minister, I had built into the terms of that the idea that it was not just to transfer fixed functions, but also to keep it fluid and to keep it open. In many ways, the models that are coming forward and the logic that is there for city deals here and so on, we have regional capacity, but it is a case of then saying, "It might be in the same style as European programmes. We said there are things we want to do locally. Allow local government to bid—to say how they can do that best in their area, how they can design or shape a policy, and they can bid for their share of the funding accordingly. It does not have to be the same thing in every area, but it can be part of a regional governmental policy." Again, the logic of that seemed to be accepted, but the civil service and just lazy regional political interests had decided, "No, we don't want any of that."

Chair: I am not going to ask our witnesses to comment on that or respond to that, but I would like to thank our guest witnesses, not least Mark Durkan and Bob Neill. It is a wonderful position to be in as a Select Committee Chair to have people who are steeped in the subject and have very strong opinions rooted in their own experience, which is tremendous. We continue to do our work on this, and we are moving slowly, in England in particular, but in the UK as well, but we have a long-term vision about where we may get to on this.

I would also like to thank our formal, proper witnesses, Lars and Sören, for sharing your great experience from Sweden, and indeed across Europe. I thought we were going to finish at 10 to 11. I personally would like to keep this going until at least 1 o'clock. I suspect you have already cancelled or been late for one appointment. All I can suggest is you say that the Select Committee has power to call for witnesses. I do not know whether that means we could detain you in the Tower of London, but this seems like a pretty good excuse if we have made you late for a pleasant lunch or another exchange. Lars and Sören, thank you so much for your time this morning. It has been very informative.