

95/2320

Council of Europe
Conseil de l'Europe



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Congress of Local and Regional Authorities of Europe
Chamber of Local Authorities

Congrès des pouvoirs locaux et régionaux de l'Europe
Chambre des pouvoirs locaux

Strasbourg, 12 May 1995

CPL (2) 1
Part II

SECOND SESSION
(Strasbourg, 30 May to 1 June 1995)



REPORT
ON TOPICAL ISSUES
OF THE CHAMBER OF LOCAL AUTHORITIES

(Rapporteur: Mr Antony HAGGIPAVLU, Cyprus)

EXPLANATORY MEMORANDUM

INTRODUCTION

The success of a report on Topical Issues depends very much on the number of countries replying to the request sent out for information. At the time of analysing this material, the following countries have replied:

Austria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, Hungary, Iceland, Italy, Norway, Slovakia, Sweden and the United Kingdom.

I have tried to identify, from the replies, what seemed to me to be some significant trends - an analysis to which I have added some comments drawn from my own experience as a Mayor and a long-standing member of the Congress and its predecessor, the Standing Conference.

In order to give a full picture, I have included in my report the material sent in by delegations.

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1. Strengthening Local Authorities

Relatively recent legislation and shifts in practice in some countries have strengthened the position of local authorities. For example, legislation in **Austria** in 1994 made the direct election of mayors possible, although remaining optional. Four out of nine Länder have thus proceeded with direct elections, generating considerable public interest (70 to 80% turnout of voters). It is felt that this procedure gives the elected mayors greater independence and democratic legitimacy, avoiding the need to seek coalition with several minor parties.

The same reform has taken place in **Italy**, where legislation in 1993 provided for direct election of mayors of municipalities and presidents of provincial executives. In addition, resignation of the directly-elected mayors or presidents automatically brings about the dissolution of their respective councils.

In **Cyprus**, parts of the legislation of 1985 still await enactment; one current significant amendment, introduced by the 1985 Bill, is the abolition of the requirement for municipal regulations to be approved beforehand by the Cabinet and the House of Representatives.

In **Finland**, a new Local Government Act, for which approval was given in 1994 by the Finnish Parliament and which is expected to enter into force in 1995, has a number of objectives:- the increase of residents' participation in local decision-making; the reinforcement of the status of directly-elected local councils; the provision for local authorities to have more discretionary power than beforehand, to establish administrative bodies and arrange their overall administration as they see fit.

Such reforms will include stronger constitutional safeguards for municipalities; more leeway for local authorities in the definition of their mandates and responsibilities; the primary responsibility for deciding upon their local government boundaries; the opportunity to develop referenda which would have binding force; stricter eligibility requirements for candidates; fewer regulations on decision-making procedures; greater flexibility in inter-municipal co-operation and the development of a uniform agreement covering the conditions of service of municipal personnel.

In **Iceland**, there are proposals for strengthening municipalities through their amalgamation (the number of municipalities has been reduced from 200 to 170). Some functions and responsibilities of local authorities have been increased, eg new educational responsibilities.

An Administrative Act was passed by the Icelandic Parliament in 1993, which contains a number of guarantees for citizens in relation to their state and municipal administrations - concerning, for example, the right to information, notification of decisions, reform of administrative complaint procedures, etc.

In **Italy**, legislation in 1990 reformed the organisation of local government, giving a greater degree of autonomy for municipalities and provinces, with a requirement that they adopt a Statute corresponding to the specific situation and profile of the community in question and settling the functions and operation of local government bodies, in line with overall legislation.

The law also ensures better separation of power between political representatives and their staff and improves citizen participation through referenda and consultation procedures, including the appointment of a local ombudsman.

In 1994, legislation confirmed and reinforced the right of "mountain communities" to be territorial authorities in their own right.

In **Italy**, there is also a major political debate concerning the institutional and financial aspects of internal federalism which, if introduced, would have inevitable repercussions on local and regional government.

In some **Central and Eastern European countries**, the second round of municipal elections has taken place - for example in the **Czech Republic** in 1994, following the first elections in 1989. The information received suggests some progress in the consolidation of local government responsibilities and an increase in confidence. Reference is made, in respect of the **Czech Republic** for example, to a range of topics and policies dealt with successfully by local authorities - on improvement of living and environmental conditions; increase in local authority control of public utilities, such as electricity, gas and heating; some successes in the operation of local education facilities and improvements in public transport.

2. Financial Resources

Although there are some bright spots, most of the replies indicate problems in finding the necessary resources for the provision of municipal services as a result of spiralling costs, economic stagnation or recession, the impact of unemployment and the reduction of the tax base. Such shortcomings are particularly felt in those countries such as Austria and Finland, which have a high proportion of public investment borne by local authorities (approximately 70%).

Austria mentions specifically the high costs for public health - a concern also echoed by Denmark about the provision of social welfare. In Norway, the welfare state, long regarded as a model, is under pressure as a result of lack of resources, a problem rendered more acute by the ever-increasing number of people, primarily elderly and unemployed, who are directly dependent on welfare services.

In **Cyprus**, all municipalities are faced with serious and long-term financial problems, despite proposals for increases in the allocation by state authorities arising from increases in revenue from direct and indirect taxation.

In some **Central and Eastern European countries**, local authorities continue to complain that their responsibilities are increased without any corresponding increased funding (**Estonia** and **Slovakia**). In **Hungary**, financial resources of local authorities are scarce and

centrally controlled revenues are proportionally high, accounting for roughly 70 % of local government incomes. Insufficient and decreasing resources tend to limit local authorities' decision-making powers and make long-term financial planning practically impossible. The problems have been exacerbated through erroneous financial decisions by inexperienced local authorities, with many of them undertaking risky entrepreneurial activities or unrealistic development projects.

The resulting indebtedness, coupled with diminishing revenues has driven almost 10 % of Hungarian local authorities (some 200-300 municipalities) to the verge of insolvency. Emergency measures, such as providing extra subsidies under strict government control setting a limit on local government borrowing are raising fears of re-centralising tendencies. Experts say that no way out is conceivable without an overall reform of the public financing system.

Even in the countries where local authorities have a more established tradition, such as **Iceland**, the need to insist upon this parallelism of responsibilities and finance is made, for example the Reykjavik Declaration at the Nordic Conference on Municipal Affairs in 1994, where the Conference called upon national parliaments and governments of the Nordic countries to ensure, in legislation, that new responsibilities are not imposed on municipalities unless financing is previously secured.

In **Italy**, improvements have taken place, where local finance has undergone significant reform, giving a broader-based independent taxation, ie the possibility for territorial authorities to levy their own taxes, thus reducing the proportion of resources derived from central government.

The current situation is that central government provides 44%, with local taxation providing 56% of revenue.

Recent legislation in Italy also enables local authorities to propose loans, in order to encourage investment in specific sectors where budgetary resources are insufficient. Furthermore, an equalisation system has been introduced to help reduce current imbalances between richer and poorer communities.

3. Recourse to the Private Sector for the Provision of Public Services

Some countries, in the light of the problems described above, have increasing recourse to the private sector. This was mentioned in the case of **Austria** and **Denmark**. In the case of **Finland**, interestingly, new forms of service production have been examined, eg a "customer/producer model in which the financing, control and organisation of services would be done by the public sector, with implementation by private institutions".

Such evidence confirms the practice already described in the report done in 1993 on public/private sector co-operation for the former Standing Conference.

The **United Kingdom** also mentions the progressive extension of Compulsory Competition Tendering, whereby local authorities are required to invite tenders from the private sector and from their own staff for the future operation of a specific proportion of their services, eg refuse collection, highways work, catering, cleaning, etc.

4. The Erosion of Local Democracy

Inevitably, parallel to a movement towards strengthening local government in some countries, there is an equal tendency to erosion of local democracy and a weakening of the position of local government vis-a-vis central government.

Perhaps the most remarkable example, from the more traditional countries, is from the **United Kingdom**, where reference was made to the progressive transfer of functions previously carried out by local authorities to state agencies with appointed boards ("quangos") - a major trend of constitutional significance. In a discussion document prepared by the Association of Metropolitan Authorities, entitled "Changing the Face of Quangos: Proposals for the Reform of Appointed Bodies in England and Wales", a number of sharp criticisms were made affirming that "democratic government in Britain today is threatened by the growth of a new magistracy of appointees who sit on public bodies, spend tax payers' money and take decisions, often in private, which should properly be the preserve of elected politicians". Furthermore, elected councillors have been removed from some bodies on which they used to sit as of right and "quangos" now account for about 20% of total public expenditure, more than is allocated to local government in England and Wales in Revenue Support Grant.

In the report, there is discussion on the dangers of the lack of accountability; the need for transparency; the coordination of service provision; the declining standards of public ethics; the existence of political nepotism in the appointment to public bodies. The report makes a number of clear recommendations for a new democratic framework for the operation of "quangos".

In the **United Kingdom** too, there is reference to increased financial contributions, to an average of 80%; of dependency of local authorities upon central government grants - a centralisation of finance to which the **Estonian** report also refers.

Reference is also made to the inherent weakness of local government bodies, occasioned through lack of public interest or involvement. In the **Norwegian** report, for example, reference is made to a high turnover among local and regional politicians, few presenting themselves for re-election; lack of inhabitants' involvement and interest and the need for local and regional levels of authority to have more status and freedom of action if inhabitants are to become more involved, both as active political decision-makers and as users.

In **Central and Eastern European countries**, including applicant countries to the Council of Europe, the fragility of local democracy is well-documented. The trace of the dismissal and/or the suspension of **Romanian** mayors, as a result of current central government legislation, is being discussed by the Congress and will not be dwelt upon in this particular report. Similar problems arise elsewhere, for example in **Russia** where central government, with very few exceptions, still has the power to hire or fire mayors, even of major cities, and where the new local government legislation currently presented to the Douma seems very much a return to the previous Soviet central system.

Furthermore, in **Russia**, local authorities are very heavily dependent, financially and legislatively, on the regions (the Subjects of the Federation) and are bedeviled by the lack of constancy in such territorial interrelations.

In the war-torn areas of Europe, it is of course evident that local authorities have a dual problem:- the inevitable weakening of their position, through the ravages and dictates of a war and the sheer burden of problems from human tragedy, refugees, dangerous and poor living conditions of inhabitants, with which they have to deal, often unaided. Particularly poignant was the appeal sent in - and discussed at the Standing Committee - by the **Croatian** mayors drawing attention to the extreme difficulties of their position and the need for international, inter-municipal support.

5. Environment and Sustainable Development

All the **Nordic countries** mention specifically the importance of local authorities in the protection of their environment and in the application, locally, of the Agenda 21 agreements. **Denmark** particularly expressed the hope that the Congress would undertake more work on this question¹. There is reference to increased co-operation between local

authorities and central government on environmental questions, eg in **Iceland**. Significantly, the recent review conference held in Berlin on the application of the Rio agreements showed that much of the progress that had taken place had been achieved by local government.

Even so, in countries where national committees for sustainable development have been established, it is not always the case that local authorities are adequately represented upon them.

6. Rural Development and Rural Tourism

There is very little specific reference to such questions in the replies received, although it is clear that many local authorities in rural areas in member states have problems in compensating for jobs as a result of diminishing agricultural activity, and difficulties in conserving the vitality of the countryside and its traditional values in the face of economic development.

Nevertheless, material from **Finland** mentions rural and ecological tourism as a source of new jobs and economic activity in the countryside and describes in some detail mechanisms such as the provision of farmhouses for offering tourist services, the development of services and activities relating to the utilisation of natural strengths, ie nature trails, hiking, forests, water courses, archipelagos.

In **Cyprus**, there is reference to tourism, but in a negative sense, picking out environmental and even social damage caused by extensive tourism.

¹ There is a proposal made by the United Kingdom delegation for a working group on sustainable development.

Austria also identifies the problems of rural areas as a result of infrastructural weaknesses, the employment situation, the provision of social and medical care, limits in leisure and cultural possibilities, problems in the proximity of services - all contributing to the dwindling attractiveness of rural areas. What is needed are specific powers for halting desertification and local authorities, in rural areas, as in Finland, to protect their natural capital through the investment in leisure and recovery activities provided by a healthy environment.

The **Austrian** report also mentions that an adequate public rural transport network, necessary for general development, constitutes a high financial burden for local authorities, from which many other institutions benefit without any return being made to the local authorities themselves.

7. Increased Direct Co-operation between Local Authorities

Direct transfrontier co-operation between local and regional authorities in Europe is a contemporary political reality, whether national governments like it or not. The legitimate aspirations of local authorities to co-operate with their counterparts in other countries, both inside and outside Europe can often clash with the limits and prerogatives of national foreign policy. This innate conflict is mentioned in some of the replies received. It is inevitable, when some major cities have major international relations departments and are forming networks for a host of economic, industrial, commercial and not just cultural reasons, that there will be some form of attempted regulation by central government.

For example the Local Government (Overseas Assistance) Act 1993 clarified the powers of **United Kingdom** local authorities to engage in technical co-operation projects with counterparts in Central and Eastern Europe and developing countries. It is also clear from the work being done by the CLRAE North/South Working Group and, specifically, the report being prepared by Mrs Bloemendaal-Lindhout on "New Opportunities for National Associations of Local Authorities in North/South Co-operation", and the Recommendation arising from the report, that there are still wide divergencies in European countries between the right of local government to invest abroad without prior authority from central government or, indeed, to embark upon bilateral assistance projects.

8. The Impact of Membership of the European Union

Replies received from the new member countries of the European Union all refer to the impact of the European Union.

Austria, for example, intends playing its full part in the decision-making process in the European Union. Local government and local authorities are represented on all working parties in Austria concerned with information and EU activities. They were included in the consultative process concerning accession to the EU, with direct representation of the two political bodies, the Österreichische Städte- und Gemeindebund. Such involvement in the membership and application procedure, considered unique in Europe, was felt to encourage support for accession to the European Union by Austrian mayors and helped produce the success of the vote (66% in favour).

Furthermore, the increased financial burden following accession is shared by all authorities at all levels, with 17% of membership fees and dues being derived from local authorities.

Local authorities were also closely involved in assessing the legal consequences for their particular tier of territorial government, in identification of regions and local areas in need; and in specific projects destined for aid. Equally, there are finely-tuned financial mechanisms to offset, for the local taxpayer, the increased cost consequent upon membership.

9. Pilot Schemes for Reform

Reference is made, in the **Icelandic** report, to the practice of Nordic countries, which have, over the last ten years, established formal, projects whereby a few selected municipalities have experimented over a four/five year period with innovations on, for example, new approaches in municipal administration, transfer of responsibilities, new service initiatives. Such programmes have often paved the way for changes in legislation and reform. For example, in **Iceland** in 1994, the government passed legislation on "A state of pilot communes" which provided for municipal experimental programmes on social housing, services for the handicapped, employment, primary health care, services for the elderly, even local economic development. Such pilot schemes could well be introduced as a method of work in other countries.

10. Violence, Criminality and International Terrorism

Racial and cultural tensions and hostility; the alarming incidence of drug-related crime; the relative freedom from punishment of international drug networks and appalling tragedies such as the recent bombing of a federal building in Oklahoma: are becoming depressing, regular features of European, particularly urban, society.

Some of the replies mentioned this, of course, as a prime problem for local authorities at the coal face of having to deal with the question. It is not without reason that the Chamber of Local Authorities has recently decided to create a new working group on reducing urban insecurity and criminality.

I would like to see in the debate on Topical Issues some expression of priorities felt by delegates for the work of this new group. Why not, as has been suggested in the Bureau of the Chamber, the development of a Charter or a Code of Citizen Ethics or Duties? We have heard, inevitably and quite rightly, a lot about rights of citizens, particularly in urban areas, and we have our own European Urban Charter as an example, but I feel in the face of the current scourges of criminality that we should perhaps develop, through the working group, more work on this question in the Congress.

1. AUSTRIA

I. *In a letter to the Secretariat, the Austrian League of Towns indicated the following items as being currently important for local government:*

1. THE IMPACT OF MEMBERSHIP OF THE EUROPEAN UNION

Austria has appointed its representatives in the Committee of the Regions and intends playing its full part in the whole of the decision-making process in the European Union concerning local government. There are working parties in Austria concerned with information and EU activities, where all local authorities are represented under the chairmanship of the Federal President.

a. Inclusion of local authorities and Länder into the flow of information: pursuant to certain legal provisions, local authorities were included into the consultative process concerning accession to the EU. There was direct representation of both the political bodies "Österreichische Städte- und Gemeindebund" - both are mentioned in the Austrian Constitution and took part directly in the decision-making process. These rights, unique in Europe, enforced support for accession to the EU by Austrian mayors and helped to produce the overwhelming success of the vote: 66% pro EU.

b. Financial consequences:

All the excess burden due to accession to the EU is shared by all authorities on all levels. Negotiations brought the following result: 17% of EU membership fees are financed by local authorities (this part equals roughly their relative tax revenue). The authorities have the possibility to extend the share of their most important tax, income tax, in all sectors 3% to the current derivation in the sector concerned, in order to release the private households. In so doing, almost all the excess burden on salaries can be omitted.

c. Preparation for EU regulations and programmes:

Intensive preparations took place before accession to the EU, as already partly mentioned above:

legal consequences on all levels
regions in need
unique projects for immediate help

Local Authorities in general took part in the negotiations.

2. ECONOMIC AND SOCIAL DEVELOPMENT FOR LOCAL AUTHORITIES

Spiralling costs, particularly for the public health sector, have caused serious economic difficulties for local authorities. In order to ensure an adequate level in the provision of services, local authorities increasingly have resort to contracts with the private sector.

70% of public investment is carried out by local authorities. The economic activities of local authorities were also increased. However, health costs went up without an increase in revenues.

In 1991, 19% of tax revenue was used for the public health sector. In 1995, it will be 25%.

3. DIRECT ELECTION OF MAYORS

A new Law, enforced since 1994, now permits the direct election of mayors instead of their election by the municipal councils. This has taken place in 4 Länder.

Mayors used to be elected by local government. Now, the Länder can choose between the old alternative or a new one with direct elections. Four of the nine Länder decided in 1994 to introduce direct elections. The great majority of the public showed a big interest (70-80%). Elected mayors are able to gain, vis-à-vis their parties and the direct elections guarantee that a mayor is not bound to seek a coalition of several minor parties.

II. *The Austrian Association of Local Authorities welcomes the intention to create new working groups in the framework of the CLRAE and is interested in co-operating on this subject.*

For the intention of topical issues, suitable for discussion in additional working groups, the Austrian Association of Local Authorities would like to emphasise the following important issues:

1. URBANISATION

In Austria, at present, equality of prospects for urban and rural areas cannot be said to exist. Urbanisation, which has developed as a result of infrastructural weaknesses in rural areas, has resulted in pushing these areas even further into the background.

The employment situation and other structural reasons, such as social and medical care, leisure and cultural possibilities, proximity of services, etc, also contribute to the dwindling attractiveness of rural areas.

It is therefore necessary to implement a specific structure for parallel development and for halting the desertification of rural areas.

2. ENVIRONMENTAL DEVELOPMENT AND MUNICIPAL INFRASTRUCTURE

Largely because of the high environmental standards in Austria, the costs to be covered by local authorities for the creation and the maintenance of a municipal infrastructure are becoming more and more difficult to finance. It is therefore of vital importance that local authorities in rural areas protect their capital by investing in recuperative resources in a healthy environment.

3. RURAL TRANSPORT NETWORK

A basic requirement for the creation of infrastructural facilities in rural areas is the construction and the maintenance of a rural transport network. These transport areas, which constitute a high financial burden for local authorities, are - by linking up with municipal centres and conurbations - as important as other central facilities for the acquisition of jobs, purchasing possibilities and services.

The Austrian Association of Local Authorities endeavours to point out the importance of rural transport networks as a municipal obligation, which for many institutions is a decisive factor in cost cutting, nevertheless financially borne by local authorities without any return.

2. CYPRUS¹

The main priorities of local authorities in Cyprus

LEGISLATION:

In 1985 a new comprehensive law on municipal authorities, namely the Municipal Authorities Law of 1985, was passed replacing all previous ones. Although many new topics were tackled in the 1985 legislation, various bills and law proposals are now in the House of Representatives awaiting enactment. Perhaps the most important amendment introduced by the said bills and law proposals is the abolition of the need for rules and regulations laid down by municipal authorities to be approved by the Cabinet and the House of Representatives prior to enforcement.

FINANCIAL PROBLEMS:

Almost all municipalities in Cyprus are faced with serious and long-existing financial problems. Because of that, the Municipalities active through their Union, embarked on an effort to improve their financial position and a series of measures were put forward for discussion with the government. Such an important measure is the linking of the annual state grants to municipalities to a percentage of state income from direct and indirect taxation. This proposal has been accepted by the government, but the percentage in question has not yet been agreed upon. Despite this, local authorities are still facing enormous financial problems and the serious efforts towards solving them should be continued, if the financial position of local authorities is to appear less grim in the future.

PROBLEMS ASSOCIATED WITH ECONOMIC AND TOURIST DEVELOPMENT:

In the late 1970s and early 1980s, Cyprus experienced a tremendous economic and tourist development (today, Cyprus attracts over two million tourists every year, a figure which outnumbers its population by almost four times). This rapid development has brought about considerable affluence for the people of Cyprus, but has also caused serious problems such as detrimental repercussions to the environment and problems of a social nature, such as violence and drug abuse. Economic and Tourist Development has also given rise to the need for various new infrastructural projects, such as the construction of roads, sewerage systems and industrial areas, and the improvement of existing infrastructure.

¹

Information provided by the Union of Cyprus Municipalities

3. CZECH REPUBLIC¹

First of all, it should be pointed out that, in November 1994, the second democratic local elections since 1989 took place in the Czech Republic. The elections confirmed the positive development of local authorities and the increase in confidence of self-governing bodies.

There have also been, of course, personal changes in the composition of municipal assemblies, their organs and leading representatives.

Among the important topics dealt with by local authorities, the following can be mentioned:

- solution of problems connected with operation and financing of transport facilities being offered to the population of municipalities and adjacent areas (in particular, transport to workplaces, schools, between small localities and larger centres, etc), issues of financial contributions from municipal funds, private and public co-operation;
- active engagement of Czech municipalities in a large-scale action on improving living conditions and environment by participation in programmes developed and funded by the government and by their own municipal initiatives;
- solution of problems related to the transfer, to municipalities, of one-third of shares in the energy joint stock companies (formerly state enterprises which were privatised), in order to get more influence on distribution and supplies of electricity, gas and heating in the municipal territory;
- solution of problems connected with the operation of local education facilities (in particular primary schools) and participation of neighbouring municipalities in sharing relevant expenditure.

The representative organisation of municipalities - Union of Towns and Communities of the Czech Republic - deploys activities aimed at further strengthening its position as a counterpart of government bodies and other central institutions in dealings on municipal issues, and supports an accelerated accession of the Czech Republic to the European Charter of Local Self-Government.

¹

Information provided by the Union of Towns and Communities of the Czech Republic.

4. DENMARK¹

One of the main questions is the increasing tasks of local government for social welfare, covering such aspects as income, living conditions and facilities for citizens provided within and by local authorities and the wider involvement of citizens in improving and delivering social services.

A full account of the current question is contained in the report arising from a conference held in Denmark on European Welfare Development, Grenaa (Denmark) in June 1994. The report was entitled "Challenges to Local Government in European Welfare Development".

The Danish delegation would also welcome an opportunity to discuss European social policy, following the discussions on the EU Commission's White Paper on European Social Policy, as well as the White Paper on Growth, Competitiveness and Employment.

Another important question is private and public co-operation - currently very much discussed in Denmark at present and much material is contained in the report of the CLRAE on public and private co-operation, presented at the 1993 Plenary Session.

A continuing preoccupation is environmental protection, nature conservation and sustainable development and the Danish delegation would wish to see the CLRAE devoting more attention to these subjects in its future works.

¹

Information provided by the National Association of Local Authorities in Denmark

5. ESTONIA¹

1. One of the principal questions is the relationship between the State budget and local finance for local authorities.

Local authorities' financial mechanisms are still somewhat inflexible and certainly insufficient for requirements and responsibilities which are progressively increased. There are particular shortcomings in social policies and social welfare and there is an undoubted trend towards centralisation in budgetary matters and resources.

2. Generally, local governments are concerned to protect their rights, in accordance with the Constitution, and secure independent forms of taxation.

Particular problems arise in specific areas such as road maintenance, the application of legislation on primary schools, housing, the organisation of labour markets and the whole question of land reform and tax on land profits.

¹

Information provided by the Association of Estonian Cities.

6. FINLAND¹

THE SERVICE STRUCTURE

Finland, like other Nordic countries, differs from the rest of Western Europe as to provision of wide range of public services for all residents. Their proportion of the GNP is higher than elsewhere in Europe. The principle has been that services are available for all residents irrespective of their economic or social position. Expansion of services has based on the idea of universality and joint responsibility. Financing of services has taken place mainly through tax money.

In Finland, about 70% of all public services are produced in municipalities. Social and health care as well as primary and secondary education are almost entirely at the responsibility of the municipalities.

New thought has been given to the organisation of services now that there is a recession. Economic recession (cut in tax receipts and state subsidies) and rising costs have forced the Finnish municipalities to rethink the scope and financing of service production.

Key questions to be discussed are:

- overall dimensioning of service production in the new economic situation;
- financial questions: own share of service users/customers/support of the society;
- new forms of service production: there have been discussions about a "customer-producer" model, in which financing, control and organisation of the services would be done by the public sector, whereas the implementation would be taken care of by private institutions and producers of service; competition; privatisation/division of tasks between public and private sector

Public services employ at present some 20% of the Finnish labour force.

Together with the improvement of effectiveness and economy, aspects relating to unemployment have to be taken into consideration in sparsely populated areas; problems posed by ageing of population and other questions to be discussed while rethinking the organisation of service structure.

RURAL AND ECOLOGICAL TOURISM

How to find new sources of income, how to compensate jobs released from the diminishing agricultural activity, how to conserve the vitality of the countryside are issues under discussion in many municipalities.

¹ Information provided by the Association of Finnish Local Authorities

This is particularly important for us now that Finland has joined the European Union and programme based development work has been started at municipal and regional levels. As part of the Rural Area Programmes and to benefit from the natural strengths and attractions of Finland, rural and ecological tourism is expected to create new jobs and economic activity in the countryside.

At present, there are more than 2,000 farm houses offering tourist services. However, to make rural and ecological tourism a profitable business, new foreign markets are needed and to meet the requirements of modern tourism concerted action and public support measures and long-term development strategies as well are needed. It has been estimated that public support measures should be targeted in the first place in the conservation of existing building stock like cottages for hire, renovation of houses to meet the requirements of modern tourist and in the development of services and activities relating to the utilisation of natural strengths of Finland, ie unpolluted nature (nature trails, hiking), forests, watercourses, archipelagoes, environmentally sustainable agriculture and forestry, etc.

Tourism is on the increase everywhere in Europe. In the integrating Europe tourism and, in particular, rural and ecological tourism offers a way to learn to know the country, its nature and culture and in that way paves the way towards citizens' Europe.

NEW LOCAL GOVERNMENT ACT

Enclosed is the summary of the report of the Local Government Committee for the principles of the new Local Government Act for Finland.

The main objectives of the new Local Government Act are to increase municipal residents' participation in local decision-making, to reinforce the status of the directly-elected local council and to give local authorities more discretionary power than before to establish administrative bodies and arrange their overall administration as they see fit.

APPENDIX

NEW LOCAL GOVERNMENT ACT FOR FINLAND

The proposal of the Finnish Government for the new Local Government Act was given in September 1994 to the Finnish Parliament. The new Act is expected to enter into force in 1995. With some minor amendments the contents of the proposed Act is equal with the principles included in the summary below.

The Report of the Local Government Committee (1993:33)

SUMMARY

Appointment and brief of the Local Government Committee

On 21 March 1991, the Council of State appointed a committee to draw up a proposal for a new Local Government Act. In addition, the Committee was assigned the task of making the necessary proposals for amending other legislation related to the Local Government Act, so that the various legal provisions will function together as a whole and give the country's local authorities greater autonomy to decide their own forms of organisation and arrange their own functions. The Committee's brief was to investigate:

- the relationship between local authorities and municipal residents and, particularly, the question of how residents might be given broader opportunities to participate in and to influence local decision-making;
- the relationship between local authorities and the central government and, particularly, the question of how to strengthen local autonomy and raise the status of the Local Government Act as the fundamental legislation for local government functions;
- the economic status and capabilities of local authorities and, particularly, the opportunities for securing a sufficient revenue base for municipalities and ensuring the preconditions for economical municipal functions;
- the management, organisation and practical operation of municipalities;
- a sensible approach to the drawing of municipal boundaries and establishing a basis for smooth co-operation between local authorities;
- the question of how accession to the European Charter of Local Self-Government of the Council of Europe and other international developments will affect Finland's local government legislation; and
- whether it is necessary to amend the provisions of Finland's Form of Government (Constitution) pertaining to local self-government.

The Committee first made a proposal on the amendment of the Local Government Act and the Local Government Boundaries Act and of section 51, paragraph 2 of the Form of Government. The proposed amendments to the Local Government Act and the Local Government Boundaries Act led to legislative action and the amendments came into force on 1 January 1993. The preparations for amending the constitutional provisions concerning local self-government have continued within the Ministry of Justice. So far, no Government proposal has yet been made.

Need for reforming the Local Government Act

When the present Local Government Act was passed, the main goal was to safeguard and reinforce social and economic welfare throughout the country. Public administration, and local administration in particular, was charged with the task of providing welfare services. Local government was steered by means of framework legislation which was augmented by planning arrangements of a binding nature. In addition, the State grant system (under which local authorities receive government funding) was task-specific and cost-contingent. In practice, local authorities were the executors of the central government's welfare policy.

The present act is a produce of the mode of thinking prevalent at the time it was passed, that is the era of construction of the welfare state. The act establishes a uniform framework for the administration and finances of all municipalities. Most municipal functions are specified in special legislation which, in practice, has superseded the Local Government Act.

The operational environment of local administration has changed considerably since the Local Government act was passed. Consequently, the Local Government Act no longer fully assists the municipalities in their efforts to perform their basic functions and achieve their basic goals. A less constricting and more flexible law is now needed, and one that will allow different, locally determined solutions.

Main content of the Local Government Committee proposals

Stronger constitutional safeguards for municipalities

From the point of view of local self-government, it is essential that the municipalities' real capabilities for carrying out their tasks should be taken into consideration in the drafting and enactment of the legislation regulating local government functions. The proposed amendment to the Form of Government for the specification and reinforcement of the constitutional guarantees of local self-government (the suggested amendment itself based on the proposal of the Local Government Committee) forms a coherent whole, together with the proposed Local Government Act. The amendment proposal must be brought before Parliament in conjunction with the proposal for a new Local Government Act at the latest.

The new Local Government Act - a constitution for local government

From the point of view of the relationship between local and central government, it is most essential that the new Local Government Act should function as a constitution for local government. The new Local Government Act should contain all the significant

provisions concerning local authorities and the administration thereof, so that less special legislation would be needed. Regulations in addition to the Local Government Act should be enacted only after careful consideration. The present legislation regulating the various administrative branches of local government should be rendered less stringent and trimmed down. In general, municipalities should be regulated exclusively by enacted legislation, as opposed to regulations of a lesser status.

Central government control should consist fundamentally of supervision of legality. The new Local Government Act would no longer contain clauses requiring that decisions be submitted to central government authorities for approval. The supervision of legality would function mainly through the appeals procedure.

Local authority responsibilities

The responsibilities or mandate of local authorities would continue to be stipulated under a broad provision, that is a general clause, which would allow local authorities considerable leeway to define their own mandates. In addition to the general clause, there would be a provision underlining the municipalities' broad responsibility for ensuring their residents' welfare and local development. The Committee further underscores that the municipal mandate does not extend to the contracting of financial risks or commitments that would jeopardise the continuity of municipal functions.

The new legislation would no longer distinguish between functions under the general municipal mandate and those under special mandate. The nature of municipal functions coming under special legislation has changed. The resources earmarked for such functions constitute a part of overall municipal resources, particularly now that the State grant system has been reformed.

From now on local authorities will be free to use the service of any service providers, both public and private.

Local authorities to have primary responsibility for drawing local government boundaries

The Local Government Boundaries Act will continue to regulate the drawing of local government boundaries. An amendment to the Local Government Boundaries Act that came into force on 1 January 1993 gives local authorities greater responsibility and power to decide on municipal borders.

Under the new Local Government Act, all municipalities would have a uniform status as local authorities, that is legally, administratively and statistically. Local authorities would be allowed to decide for themselves whether to adopt the designation "city", if they believe that they fulfil the criteria for urban communities. By calling themselves "cities", local authorities will be able to reinforce their urban image. It would be left to the discretion of the local authorities to decide whether they fulfil the relevant criteria.

Bolstering the status of the local council

Local administration is essentially self-government by members of the community. Local residents exercise their decision-making power through the local council. Under the new proposal, the status of the directly elected local council will be reinforced. The process of reducing central government control and rendering the legislation less rigid will transfer more responsibility to the local authorities. Local councils will be responsible for making the most important municipal decisions.

Representative democracy will continue to be the basis for our political system. Any effort to increase the credibility and prestige of the political process requires that democratically elected councillors are given clear responsibility for deciding on municipal functions and finances. If councillors, in addition to their duties on the local council, were increasingly elected to other municipal offices as well, then local residents would come into closer contact with those who manage their affairs. With this end in view, a new system of committees would be established under the new legislation.

In addition, the status of the local council would be strengthened by empowering it to issue a vote of no confidence in the municipal executive board, and thereby bring about the dismissal of the board.

The local councils themselves decide how many councillors are to be elected. The new legislation would, however, stipulate a minimum number of councillors depending on the size of the community; the minimum would be lower than the present number of councillors on any local council. Local authorities would be able to base their decisions regarding the number of councillors on the chosen pattern of local administration, such as the new committee system.

Local administration system

Local authorities must always have a local council and an executive board. The rest of the local administration system is to be decided by the local council. Under the new legislation, local authorities would have considerable discretionary power to establish administrative organs and arrange their overall administration as they see fit.

There would be two main systems of administration by elected officials: the one involving committees (*valiokunnat*) emanating from local councils and the other corresponding to the present committee (*lautakunnat*) system. Only councillors and deputy councillors would be eligible for election to "council committees" (*valiokunnat*). Persons from outside the council would be eligible for election to "non-council committees" (*lautakunnat*). Council committees would differ from non-council committees only in terms of the eligibility requirements. Likewise, local executive boards would be "council boards" or "non-council boards" in terms of composition.

The statutory responsibilities of local executive boards would remain largely unchanged. Council committees and non-council committees would administer the local authority's normal functions, such as the more significant welfare services, building activity,

environmental matters, etc. Local authorities could have both types of committee. For instance, a local authority could decide to delegate the most important functions to council committees and assign other tasks to non-council committees.

Emphasising the political role of the municipal manager

Under the proposed legislation, local authorities would also be given greater leeway to decide for themselves which pattern of municipal management suits them best. However, certain basic stipulations would be included in the new legislation.

In defining the role of the municipal manager, local authorities could choose to emphasise either the political or the professional aspect of the office. Local authorities could choose to have a strong political chief officer, who would act as chairman of both the local executive board and the local council. The proposed legislation would contain no provision forbidding such an arrangement, as is currently the case. Local authorities would thus be able to emphasise the responsibility of elected chief executive officers for municipal management.

All local authorities would have a municipal manager, who would be a municipal employee. The position and responsibilities of the municipal manager would be closely associated with the pattern of administration chosen by the local authority.

In defining the position of municipal manager, emphasis would be placed on professional leadership, but political responsibility could also be included. If a local authority were to elect a strong political official (ie chairman of the local council and the executive board), then it would also require a professional municipal manager. Such municipal managers could be appointed for designated terms of office or for indefinite periods of service.

Two different routes could be taken to emphasise the political role of the municipal manager. The municipal manager could be appointed for the same term of office as the local council, in which case he would always serve as the chairman of the municipal executive board. Likewise, a municipal manager appointed for an indefinite or otherwise fixed term of office could also be elected to serve as chairman of the executive board.

Opportunity for referenda of binding force

The new Local Government Act would highlight direct democracy by including more detailed provisions than the present law on the channels for direct participation and influence available to community residents.

Municipal information activities should enable local residents to actively participate in, and influence, the decision-making process right from the preparatory stages. In order to keep the public adequately informed, local authorities will have to display greater activity and initiative and advance towards a more open administrative culture. The new Local Government Act would specify the responsibility of local authorities regarding the provision of information.

The starting point for the regulations concerning municipal referenda is that advisory referenda would still be the basic form. But local councils could also decide to make the outcome of referenda binding on the council under certain conditions. The local council could, for instance, stipulate that a referendum proposal would have to be supported by a certain proportion of the eligible voters in order to pass. A referendum would have to be held whenever (at least) 10% of the enfranchised community residents sponsored an initiative.

Stricter eligibility requirements for candidacy

In the ongoing effort to restore credibility and responsibility to local government close attention has been paid to the rules pertaining to the eligibility to stand for public office. The new Local Government Act would include stricter eligibility requirements than the present legislation.

The eligibility requirements for election to the local council would continue to be less strict than those for other public offices, but would still be more extensive than the present regulations.

The new requirements would affect municipal employees so that individuals serving as referendaries to a council committee or non-council committee, or otherwise involved in matters coming before the municipal executive board, would not qualify to stand for election to the executive board. Official representatives of municipal employees would not be eligible to stand for election to the municipal executive board and to positions in branches of administration dealing with personnel matters.

The proposed changes to the eligibility requirements are intended to improve the credibility of the local political process by preventing the accumulation of public offices in the same hands. Business managers would be disqualified from service in a municipal body if they are employed by a corporation that is engaged in operations similar to those of the relevant municipal body and if the corporation could reasonably be expected to benefit or suffer from the decisions of that body.

Entire personnel to be covered by a uniform municipal employment agreement

In 1993, Finland's local authorities and joint local authorities have some 430,000 employees on their payrolls. About 56% of all municipal employees are engaged under civil-service contracts regulated by public law, whereas 44% are under contracts regulated by private law. Owing to the present economic situation, the number of municipal workers is in decline.

Under the proposed Local Government Act, there would be a single form of employment relationship which would come as close as possible to the type of employment relationship generally prevailing in the labour market. However, the present form of private employment relationships would have to be amended in certain respects owing to the special nature of municipal functions. The legality of public administration, the rights of local residents and the smooth functioning of local authority business must be safeguarded. Any new form of municipal employment relationship will have to include provisions for extensive and task-specific official responsibility.

The proposed adoption of a single form of employment relationship is designed to improve local government efficiency, simplify administration and put municipal employees on an equal footing in terms of their legal status. The practical details of this amendment would be set out in a new Municipal Employment Agreements act, which would outline the basic content of municipal employment relationships. Also needed is a new Municipal Employment Terms Act, which would establish the procedural rules for municipal employment contracts.

Fewer regulations on decision-making procedures

The new Local Government Act would also provide greater leeway regarding municipal administration and decision-making procedures. Such procedures would increasingly be left to the discretion of the local authorities themselves, in which case local conditions and needs could be given fuller consideration. The new legislation would include provisions intended to safeguard the rights of municipal residents and promote opportunities for direct participation.

The rules and regulations pertaining to administrative and decision-making procedures would be brought together in a single chapter of the new Local Government Act, entitled "Municipal Administrative Procedure". The local council guidelines for internal administrative procedures would be brought together in a single set of by-laws, the "Municipal Administrative By-Laws".

Local authorities to begin applying the Accountancy Act

The financial independence of local authorities would be ensured via the right to taxation, the right to charge for services and by providing State grants for unspecified purposes. To counterbalance this independence, emphasis would be placed on the need for continuity in public functions, the maintenance of economic equilibrium, due attention to factors of economic uncertainty and good management of municipal property. Local authorities should provide decision-makers and other constituent groups with fuller and more comparable information on the state of municipal finances and operations.

Municipal budgets should be linked more closely with long-term economic planning, which would replace the Municipal Plan in its present form. Local councils should be given a more prominent role in setting operational and budgetary goals. Local councils should allocate the resources necessary for carrying out specific functions for an entire planning period at a time.

The format for budgets, economic plans and financial statements should be improved in order to make them mutually comparable in all respects. Financial statements should depict municipal finances both from the point of view of revenues and financing. Appropriations and estimated revenues could be included in municipal budgets either as gross or net figures.

In addition to the annual financial statements, reports on municipal operations should include a review of the local authority's performance in relation to the operational and financial goals set by the local council. The municipal executive board should also make a

proposal for dealing with the financial surplus/deficit for the fiscal year and for balancing the municipal budget. Municipally managed corporations would be brought into the overall picture of municipal finances by way of a consolidated balance sheet.

As of the beginning of 1997, local government accountants would begin observing the Accountancy Act and Statue, which, however, should be amended in certain respects. This would ensure that the calculation of financial results and key financial indicators and the valuation of balance sheet items are done according to generally accepted and broadly comparable accounting practices. The appraisal of municipal finances could be further clarified by, for instance, moving away from the current practice of treating borrowed monies as revenues.

Chartered auditors to be made mandatory

Under the proposed legislation, the scope for professional auditing of municipal finances would be enlarged. An auditor chartered by the Committee for Auditing of Public Administration and Finances would become mandatory in all local authorities as of the beginning of 1997. In addition, elected officials responsible for the local populace would continue to be chosen as auditors.

All auditors would bear joint responsibility for the entire audit, but the chartered auditor would be assigned special responsibility for matters requiring the competence of a professional municipal auditor. The auditors' brief would call for "good auditing practices", thus necessitating that elected officials serving as auditors also have at least a rudimentary knowledge of auditing procedures.

It is proposed that the exclusive right to appoint professional municipal auditors, which is currently held by the Association of Finnish Local Authorities, should be immediately revoked. Professional auditing appointments would be opened up to all who pass the chartered auditor's examination.

Greater flexibility for inter-municipal co-operation

New regulations governing co-operation between local authorities came into force at the beginning of 1993. The new regulations give local authorities the freedom to make their own arrangements for co-operation. The new system recognises the voluntary nature of co-operation, the need for flexibility, the broad scope of municipal functions and the need to allow member municipalities of joint authorities more control over their own affairs.

The new regulations pertaining to joint authorities (inter-municipal corporations) emphasise the local authorities' role as "proprietors". The new legislation has been in place for only a short time, but so far there appears to be no need for fundamental alterations.

Local authorities are still required by law to engage in co-operation for the provision of certain services. In such cases, the region and organisational format for inter-municipal co-operation are specified. The specified fields for co-operation are the provision of hospital services, care for the developmentally disabled and regional planning. But even in these areas, voluntary co-operation and the flexible combination of various functions are seen as

key objectives. Within the bounds imposed by their legal obligations, local authorities should be allowed to arrange their functions with a view to improving service provision and efficiency. To achieve this objective the current system of regional boundaries will have to be rendered more flexible and the relevant special legislation amended.

Petition for redress - the mandatory first stage of the municipal appeals process

The goal in this area has been to make the appeal system clear-cut and flexible and to safeguard the rights of citizens. As far as possible, matters should be settled within the framework of the local authorities' own administrations. This would be achieved by adopting a system whereby the appellant would first lodge an internal petition for redress; this would be the mandatory first stage of the legal appeal procedure, known as the "municipal appeal".

The only decision that would be unaffected by this regulation would be local council decisions, which, in line with current practice, would remain subject to appeals to the Provincial Governments and onwards to the Supreme Administrative Court. The grounds for municipal appeals and the procedures for serving notice would also be clarified.

Main sections of the new Local Government Act to come into force in 1995

For the most part, the proposed Local Government Act would go into force at the beginning of 1995. Exceptions to this rule would be the new regulations covering local authority finances and audit procedures, which would take effect at the beginning of 1997.

7. HUNGARY¹

FINANCIAL DIFFICULTIES OF LOCAL GOVERNMENTS IN HUNGARY

After the 1990 elections, a multi-party parliamentary system and the legal framework for a significant decentralisation of governmental power were established in Hungary. In the year of the elections, a new law defined the role of local governments and assigned to them a wide range of tasks: primary and secondary education, health and social care, culture, public housing, public utility services, transportation, maintenance of local public roads and cemeteries. At the same time, it also opened up possibilities for them in the field of entrepreneurial activities.

Resources

To carry out these tasks, assets and financial resources were transferred to local governments, and they also gained significant independence in decision-making.

The assets transferred to local governments were public housing stock, real estate related to public services, some other real estate, transportation means and other utility assets - most of them in relatively poor condition. Of these, only the housing stock was easily marketable, while about 40% of the assets are not sold at all. A considerable proportion of the housing stock has been sold during the past four years, resulting in approximately HUF 75 billion income for local governments.

The main sources of revenue of local governments are state grants, shared taxes, local taxes and fees, and capital incomes (sale or rent).

The most important type of transfer payment from the state budget is the so-called normative grant, which is based on need assessments, and is calculated on a uniform basis. This item makes up about 30 to 40% of the local budgets on average (see table), but it has never covered the full costs of the targeted services, and has had to be completed with other local government revenues. With an inflation level of 22 to 33 % in recent years, the real value of these normative grants has been decreasing steadily: they covered about 70 to 75% of the targeted expenses at the beginning of the period, while they only cover about 50% today. Small communities - whose other resources are very limited - can go bankrupt as a result of this single loss.

Wealthier communities might be able to supplement the decreasing nominative grants so that they can carry out their tasks, but at such a cost that only a minimal amount remains for development in their budget. It also leaves them with a very restricted range of action.

The situation is even worse with the most important type of shared revenue, the personal income tax (PIT). This revenue has sharply diminished in the past years, through the changes in the rate of share: 1990 - 100%; 1991 - 50%; 1993/1994 - 30%; 1995 - 35%.

¹ Information provided by the Municipality of Budapest, Secretariat of the Mayor.

Meagre resources are not the only factor to curb local incentive. The government also exerts a strong orientating influence on local government investments through central funds which support centrally-defined infrastructure development aims. Local governments can compete for these subsidies, known as "targeted" and "addressed" grants. As a condition of application, they have to contribute to the project expenses in a significant proportion. Thus, they have to earmark relatively large sums in their annual budget for these purposes, even though they will not know whether their application is successful for many more months to come. This process causes a continual distortion of local development priorities and uncertainty in planning. Moreover, in the first years of the new system, most of these central resources were allocated to support long-term projects. This means that former obligations now leave little room for fresh projects (in 1995, out of applications for HUF 15 billion to start new projects, only HUF 1 billion can be satisfied).

On the whole, resources of local governments have been scarce compared to their responsibilities, and centrally-controlled revenues have been proportionally very high in local budgets (on average, they account for 70% of local government revenues). Unfortunately, centrally-controlled revenues have also been unpredictable, depending on annual budget decisions. All this means that local freedom in decision-making has become limited by insufficient and decreasing resources as well as by the uncertainties in long-term financial planning.

Pressures and efforts

In the first years of the new era, quite intensive development activity has been carried out at the local level. This has happened due to a variety of factors: a dramatic need for reconstruction and development in infrastructure; local political obligations; a strong tendency towards courageous local decision-making; and there has also been a strong incentive to make use of the system of government subsidies. The positive results of these years are undeniable.

Many of the local governments - not willing to give up investments - have tried to counterbalance the shrinking of the central resources by taking advantage of the unusually liberal opportunities for opening credit lines. Through a lack of strict rules, banks have not been obliged to study the economic situation of the applicant local governments: local assets and the legal status of the municipalities have been regarded as satisfactory, quasi collateral for the loans. Thus total bank loans taken by local governments have considerably increased in the last two years (1993 - HUF 21 billion, 1994 - HUF 50 billion). Most of them have been short-term loans, taken on not very favourable conditions.

Some inexperienced local governments have been reluctant to take loans at all even when needed; some have misjudged the affordable amount and risked fast bankruptcy; some others have started to finance operational service expenditures through loans, accelerating the process of their financial collapse.

Some other mistakes have also been committed by local governments:

- a disproportionate amount has been spent on development, without the creation of the necessary amortisation funds, thus ensuring a continuation of the earlier neglect of maintenance,

- development projects have been calculated to cover the expenses of investments only, neglecting the obvious increase in local operational costs,
- risky entrepreneurial activity has been started by local governments, which has sometimes led to bankruptcy.

The resulting serious problems became visible in 1993, when high operational expenditures and new development projects in progress were confronted with shrinking financial resources.

Local governments tried to employ different survival techniques, often lacking the necessary knowledge and professionalism.

A plausible way of economising could be to cut operational expenditures in some fields by cutting back on services, which, optimally, could also be accompanied by a transformation and modernisation of the service structure. This has not been a widespread process and, even when applied, remained hidden because of the supposed political costs with the nearing 1994 local elections. So the inherited institutional network and the range of services supplied could survive the first four-year mandate nearly unchanged, and the projects having been embarked upon were not drastically cut back, though they became more and more unrealistic.

Own revenues could have been increased by the rise in user fees or by the introduction of new local taxes. But the central government had raised prices earlier than most local governments even started to think about it, so the political cost of such actions would also have been too high in advance of the elections. The limited spending power of the population is another factor which had to be taken into consideration.

Finding a Way Out

By the end of 1994, it had become clear that the earlier pace of development could not be sustained, due to the continuous decline in financial resources. Many local governments, while intensively trying to increase incomes from rents and sales, were forced to take loans for operational costs, and were driven to the verge of insolvency.

In 1995, the financial problems of Hungarian local governments were getting more and more serious. Through new regulations, central government provides extra subsidies for financially exhausted settlements, on condition that they transfer the control and management of their institutions to the county level. This move has been criticised as implying a strong re-centralising tendency.

In April 1995, the Ministry of the Interior was aware of five municipalities being bankrupt and some ten others threatened by it. In the estimation of one of the national associations of local governments, 200 to 300 local governments (nearly 10% of all) run a high risk of going bankrupt.

To curb the process, central government has prohibited local governments from financing their debt out of transfer payments from the central budget which are allocated to cover operational costs. They have also strictly regulated the conditions of extra subsidies and are also planning to set a limit to the amount of credit a municipality can take, defined in proportion to its own revenues. A new law regulating bankruptcy processes for local governments is also being prepared.

These measures - though credit limitation is criticised for being artificial and neglecting the guarantee that marketable assets can offer - might temporarily decrease the symptoms of the crisis and the number of bankrupt local governments. However, a long-term solution can only be offered by the working out of a reliable and predictable local financing system within an overall reform of public financing - a reform that has been long promised and is much expected.

On the basis of such a reform, local governments could revise their own financial system and range of activities. They must also carry out a complex revision of their institutional network and services, revise their resource allocation system, accelerate privatisation of some public services and introduce self-sustaining prices and fees for some services, etc.

Most local governments have no opportunity to accomplish these reforms on their own, because they badly lack both knowledge and political backing. So they need professional help and transfer of know-how for the introduction of transparent local public financing and long-term strategic planning as well as for the regulation techniques to secure the adequate level of public services even after privatisation.

Local Government Revenues

(percentage)

Revenue	1991	1992	1993	1994 planned
Own revenues (local taxes, fees and capital income)	21,0	23,3	23,2	23,3
Shared taxes	11,9	12,7	9,2	10,3
State grants	47,0	42,0	47,3	47,1
Other state transfers	17,9	20,1	17,7	17,5
Total revenues and transfers	97,8	98,1	97,4	98,2
Loan	1,2	1,5	3,9	2,7

8. ICELAND¹

1. STRUCTURE OF LOCAL GOVERNMENT

The structure of local government in Iceland is of Nordic origin and, in many fundamental ways, similar to the present structure in the other Nordic countries. The history of local authorities in Iceland dates back to the beginning of the 10th century, soon after the settlement of Iceland. It is remarkable that some local government functions, such as relief of the poor, insurance in case of fire and a few collaborative farming functions, have remained ever since as the responsibility of local authorities.

2. HISTORY

Because of the historical legacy of the Icelandic municipalities, being structured around the local functions required in sparsely-populated farming communities, the process of local government reform has been somewhat slower during the second half of the 20th century than in other Nordic or Western European countries. Iceland has not yet achieved the objective of merging the smaller units into larger and more efficient units with greater responsibility.

3. COMPARISON WITH OTHER NORDIC COUNTRIES

In comparison with the other Nordic countries, it is clear that Iceland is far behind in respect of the share of local government in the total public expenditure. Whilst it is 24% in Iceland, it is between 61 and 72% in the other Nordic countries. Three of them do have regional governments, which are included in the local government expenditure in this comparison.

4. INTER-MUNICIPAL BOARDS, COST-SHARE ARRANGEMENTS

A few functions that are the responsibility of local government in the other Nordic countries are solved in Iceland wither through cost-shared arrangements between the state and individual (or a group of) municipalities, or through inter-municipal co-operation. Some of these inter-municipal and cost-shared activities have been established by general consent, eg primary schools, music schools, fire services and waste disposal. Others are statutory, such as health services, health inspection, roads, harbours, social housing and services for the handicapped. Iceland has despite the small local government units managed to supply modern social and health services and provide a good educational system throughout the country. Comparative figures with other countries confirm the high standard of welfare services in Iceland.

¹ Information provided by the National Association of Local Authorities in Iceland

5. MUNICIPAL AMALGAMATION

The national government and the National Association of Local Authorities publicly support the policy of amalgamating the approximately 170 municipalities into fewer and more powerful units. Committees appointed by representatives from the government, the main political parties and the National Association of Local Authorities have worked on this issue: first in 1966-1970 and then two committees in 1991-1994. A statute of municipal amalgamation on a voluntary basis was passed by the Althing in 1970. In a statute from 1986 on local government, there are provisions relating to municipal amalgamation on a voluntary basis, but with a minimum size of 50 inhabitants. After this statute was passed, the number of municipalities was reduced from about 220 to about 200.

On the basis of the committees' work from 1991-1994, the statute from 1986 was amended provisionally, providing for the establishment of regionally-based boundary commissions. These boundary commissions proposed new local government units within their respective region, after consultation with municipal councils and the public. Their proposals added up to 34 new local government units in Iceland. A referendum was held on 20 November 1993 and a second round in a few municipalities, with new proposals in 1994. Proposals were by statute only approved if the majority of the votes in each municipality to be amalgamated voted for the proposal. Although the majority of voters voted for the proposals when counted for the nation as a whole in the referendum of 20 November 1993, only a few met the strict requirements of approval. Consequently, the number of municipalities was reduced from about 200 to about 170. Presently, there are discussions taking place between a few municipalities and the Ministry of Social Affairs regarding amalgamation.

6. TRANSFER OF RESPONSIBILITY FOR THE PRIMARY SCHOOL

By Statute of Althing in early 1995, provisions were made for transferring the responsibility of teaching from the state to the local authorities, effective from 1 August 1996. Previously, local authorities were only responsible for school buildings, maintenance, operational costs, school buses, etc, but the teachers and the headmaster were state employees. From 1 July 1996, they will be employed by the local authorities. The municipalities will, in turn receive a higher percentage of personal income tax than they receive today and regulations for local government equalisation payments will be amended.

7. PILOT COMMUNES

The other Nordic countries have, over the last 10 years, established formal experimental projects, whereby a few selected municipalities or communes have, on the basis of statutory provisions, experimented over a four/five year period with, for example, new approaches in municipal administration, transfer of responsibilities from national or regional governments to the commune, new service initiatives, etc. These experiments have paved the way for changes in legislation and various reform measures.

A State of Pilot Communes was passed by Althing in 1994, providing for municipal experimental programmes in a maximum of 12 municipalities, mainly in the area of municipal administration, social housing, services for the handicapped, employment services, primary

health care, services for the elderly, building inspection and local economic development. The municipalities concerned have applied for over 50 projects. Their applications are now being reviewed by the Ministries concerned.f

The projects are selected in areas where inter-municipal collaboration and state/local government cost-shared arrangements prevail and where more efficient arrangements can be developed as a part of the process of municipal amalgamation and municipal reform.

8. NEW ENVIRONMENTAL CONCERNS

Local authorities in Iceland have, over the last few years, increased their environmental concern. The national government established the Ministry of the Environment in 1990. The government has co-operated with the municipalities and established many coordinating mechanisms. Examples of such coordinating mechanisms include the Nature Conservation Council, the National Physical Planning Agency and the Soil Conservation Service. Twelve inter-municipal boards in areas that surround uninhabited central highlands areas have collaborated with the National Physical Planning Agency to prepare a land use plan for the central highlands area.

The municipalities are now preparing a major plan of reconstructing sewerage systems in many towns. The national government recently introduced a programme where financial support amounting to 3 million US\$ will be given to municipalities which renovate their old sewerage systems up to modern standards.

The Ministry of the Environment and the National Association of Local Authorities have initiated a collaborative experimental programme regarding methods of collecting and disposing of waste, re-processing of waste and the use of waste for landfills.

9. UNEMPLOYMENT

Full employment used to characterise Icelandic society during the 1970s and 1980s. The employment situation has deteriorated during the 1990s and has recently been measured around 6%. This decline in employment is caused both by the economic stagnation in Western Europe in the early 1990s and the severe decline in the cod fishing industry. The government has introduced an ITQ (individual transferable quotas) system for major commercial species. Fishery is the main staple activity in most coastal towns and fish products are Iceland's main source of export income.

The national government operates and finances the Unemployment Insurance Fund. The national government and the National Association of Local Authorities, on behalf of all municipalities, have established and job creation schemes funded jointly by the Unemployment Insurance Fund and the municipalities.

10. CO-OPERATION BETWEEN THE STATE AND LOCAL GOVERNMENTS

The organisation of local government in Iceland is based on Article 76 of the Constitution of the Republic, which states that the right of local authorities to decide their own affairs shall be established by law and that they shall have a tax base. Article 2 of the Statute of local government No. 8/1986 states that no matter which especially affects the interests of a municipality may be brought to a conclusion unless the municipal council has

stated its views. In Article 105, the state recognises the National Association of Local Authorities as the common guardian of the interests of Icelandic municipalities. In order to formalise the relationship between the state and local authorities, the National Association of Local Authorities and the state have signed a co-operation agreement.

11. CO-OPERATION AGREEMENT BETWEEN THE STATE AND THE LOCAL AUTHORITIES IN ICELAND

According to this agreement, the state and local authorities agree to coordinate their policy of public management to make it possible to attain the economic goals set by the government and the Althing at any given time. This co-operation consists of the government, on the one hand, taking the initiative in legislation on specific matters or the implementation of government policy, and the National Association of Local Authorities, on the other hand, recommending that the local authorities follow a financial policy to be specified in further detail.

Regular consultative meetings are held twice a year between the state and the National Association of Local Authorities. These meetings will, for example, cover the situation, the outlook in the national economy, the employment situation and outlook in the finances of local authorities. Specific proposals made by individual ministries concerning the interests of local authorities shall be discussed. Any proposals on modifications in the division of responsibilities between the state and local authorities will also be discussed, as well as government policy on new legislation concerning local authorities, their functions and tax base. In the autumn meeting, any provisions of the state budget concerning the interests of the local authorities will be discussed.

This agreement was initially made at the request of the National Association of Local Authorities as the state had, in times of financial constraints, tended to either reduce the tax base of local governments or increase their responsibilities, through legislation without adjusting their tax base accordingly.

At the Nordic Conference on Municipal Affairs in Reykjavik in 1994, a special Reykjavik Declaration was made. In one of the articles of this Declaration, the Conference calls upon the national parliaments and governments of the Nordic countries to ensure in legislation that new responsibilities are not imposed on the municipalities, unless financing is previously secured, ie that decision-making on financing and financial guarantees takes place on the same level.

12. THE ADMINISTRATIVE ACT

The Administrative Act was passed by the Althing for the first time in 1993. This act applies to state and municipal administration when authorities decide as to individuals' rights and obligations. The act also provides for limitations on eligibility to civil servants and board members from sitting in a case based on grounds for disqualification. The act also contains articles on, for example, general rules, the right to be heard, the right to information, notification of decisions, revocation of a decision, administrative complaint and administrative boards. The act entered into force on 1 January 1994.

9. ITALY¹

**OVERVIEW OF THE MAIN INNOVATIONS
IN ITALIAN LOCAL AND REGIONAL GOVERNMENT**

1. Law No. 142 of 1990 reforming the organisation of local government solely concerns municipalities and provinces. Its importance lies in its emphasis on a wide degree of autonomy for these territorial authorities, each municipality and province being required to adopt a Statute. This instrument comes within the general legislative context but is to take account of the profile of the local community in respect of which it lays down guidelines and standards to suit the specific situation of the community. It settles the functions, organisation and operation of local government bodies, with due regard to the principles embodied in the overall legislation.

2. Law No. 142/90 makes innovations, particularly with regard to the relationship of local mayors and provincial executives with municipal or provincial councils, with a clearer separation between political office-bearers, ie elected councillors, and staff assisting them.

3. Citizen participation and means of ensuring it are the subject of other stipulations made in the above-mentioned law; for instance, the possibility of referendum and consultation of the various groups. In order to safeguard citizens' rights where the operation of local government is concerned, the law provides the possibility of appointing a "defender of the citizens" (ombudsman).

4. Another area of innovation is constituted by various means of ensuring inter-municipal co-operation: a Union of Municipalities, contracts, consortia, programme agreements, collective management of services, etc.

5. For the first time, provision is made for the creation of several metropolitan areas, and the role of "mountain communities" is more adequately defined in that they are henceforth regarded as true territorial authorities. This role was subsequently further specified and enhanced by Law No. 97/1994.

6. The more recent Law No. 81/1993 instituted the major reform of the local and provincial electoral system.

Mayors of municipalities and Presidents of provincial executives are now elected by direct universal suffrage by the citizens, with a few points of difference between municipalities depending whether they have under or over 15,000 residents; deputies may be directly chosen in municipalities with over 15,000 residents by the Mayor without consulting the municipal council, on which the deputies can sit without being entitled to vote but with all the responsibilities attaching to their office. In other smaller municipalities, appointment of deputies chosen without consulting the council can be prescribed by the Statute.

¹ Information provided by the Italian section of the Council of European Municipalities and Regions (CEMR).

7. Resignation of directly elected Mayors or Presidents automatically entails the dissolution of the respective councils.
8. Significant innovations have been introduced regarding oversight, with a view to extending municipal and provincial autonomy.
9. In the matter of staff, Law No. 142 makes for greater responsibility for the heads of local administrations.
10. Where the Regions are concerned, in preparation for the elections held for regional authorities (and for the municipalities and provinces) the electoral system was reformed on 23 April 1995 to become a mixed proportional-majority vote.
11. In addition to Law No. 142/90, Law No. 241/90 governing accountability in public administrative acts should be mentioned.
12. Local finance has undergone noteworthy reforms in the direction of broader-based independent taxation, ie the possibility for territorial authorities to levy their own taxes, thereby reducing the proportion of resources derived from transfers from the central government. In 1995, state subsidies will make up approximately 43.8% of resources. The remainder is provided by local taxation (56.2%).

Recent legislation also enables local authorities to propose loans (Buoni Ordinari Comunalì) in order to encourage citizens to invest in specific sectors where budgetary resources are not sufficient.

An equalisation system has been introduced to guard against aggravation of imbalances between richer and poorer communities as a result of fiscal and financial autonomy.

13. A major debate is currently proceeding in Italy among the political class and experts regarding the institutional and financial aspects of internal federalism. An effort is being made to clarify the actual concept of federalism in relation to the regionalism already established, since the distinction between the two is still somewhat ambiguous.

Plans and proposals put forward by experts fuel this debate, which also concerns the need for constitutional reform, although this cannot take place until the new parliament has been elected. Introduction of federalist principles will obviously have inevitable repercussions on the local and regional government system itself.

10. NORWAY¹

1. FINANCIAL MATTERS: THE CHALLENGES FACING THE MODERN WELFARE STATE

The Norwegian welfare state has been regarded as a model in both the European and international context. However, the welfare state is continuously under pressure due to lack of finances. In the Norwegian context, local and regional authorities are the providers of most of the services in our welfare state. The ever-growing number of people (primarily the elderly and the unemployed) who are directly dependent on welfare services make the challenges facing local and regional authorities considerable.

In addition, the relationship between money spent on public services and on social security services has been altered. An ever-increasing share of expenditure is being channelled through social security provisions, to the detriment of other public services.

The finances and the financing of the welfare state itself are therefore of great topical interest to us.

2. PRODUCTIVITY AND EFFICIENCY

In parallel to the above, it would be interesting to examine different ways of organising local and regional authorities and to see ways of maximising the financial resources available. Productivity and efficiency are key words and the question of privatising services is of interest. Can the private sector for example give ideas about how to organise the different activities?

3. UNEMPLOYMENT: CHALLENGES FOR LOCAL AND REGIONAL AUTHORITIES

Since the unemployment rate is increasing more or less all over Europe, questions related to this challenge are of high interest. Most of the direct and indirect challenges due to unemployment among inhabitants are to be dealt with by local authorities. These challenges may differ from place to place, but examples of good practices and new methods of dealing with the problems will always be meaningful.

4. DEMOCRACY, PARTICIPATION AND CONTROL

Another challenge local and regional authorities face is linked to democracy, participation and control. The local and regional levels are important democratic arenas. Nevertheless, there is a high turnover among local and regional politicians. In fact, only a few representatives present themselves for re-election in this country. The local and regional levels of authority may need more status and freedom of action in order to get inhabitants more involved, both as active political decision-makers and as users. An important issue is

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Information provided by the Norwegian Association of Local Authorities

to get the inhabitants involved and interested. To what extent the user's needs should be taken into account when providing services is an issue linked to this, as well as how the political control is secured in a system where the users play a more important role.

5. ENVIRONMENT: AN ISSUE OF GREAT IMPORTANCE TO LOCAL AND REGIONAL AUTHORITIES

Environmental issues are of great importance and should be given particular attention in the work of the CLRAE and the Council of Europe in general. The Environment Protection at Local Level Reform in Norway has put environmental issues on the agenda in all municipalities and county municipalities.

11. SLOVAKIA¹

1. Rearrangement of administration division of the state territory
2. Division of responsibilities between state and local government
3. Legislative transition, including tax legislation
4. Municipal economy and finance
5. Municipal property and privatisation

¹ Information provided by the Association of Towns and Communities of Slovakia (ZMOS)

12. SWEDEN¹

Important CLRAE issues - Swedish proposals

Sweden is anxious to avoid duplication of work on similar issues in different European co-operation organisations. Obviously, the Congress of Local and Regional Authorities of Europe (CLRAE) should primarily deal with matters relating to local and regional democracy.

The following issues rank high on Sweden's political agenda at the moment and the first two have special priority.

1. THE NEW SITUATION FACING LOCAL AND REGIONAL AUTHORITIES IS AN INTEGRATED ECONOMY

Increased mobility and open borders are imposing closer integration and liaison on local and regional authorities. This has implications for policy-making and the provision of services at all levels. The Congress has embarked on a programme of upgrading the authorities' knowledge base by means of exchanges of experience and collaboration with research institutions. This seems useful and the programme may prove to be a valuable complement to our co-operation with the European Union. The following are some examples of areas where more information is needed:

- the effects of integration on local and regional authorities' financing arrangements;
- the effects of community services; formal and informal harmonisation of such services; new divisions of responsibility as regards the provision of services; systems for political control;
- a growing need for local and regional co-operation as a result of integration, etc.

2. CITIZENS' PARTICIPATION IN THE POLITICAL DEBATE

Citizens' participation in the political debate is essential in a democratic society. The Council of Europe's Congress of Local and Regional Authorities of Europe (CLRAE) has an important role to play in the debate on ways and means of increasing citizens' participation at the local and regional levels.

There is a particular need of exchanges of experience as regards efforts to increase the participation of women in politics. This issue is closely linked to the new local and regional training networks that are being established within the framework of the CLRAE.

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Information provided by the Swedish Association of Local Authorities.

3. CO-OPERATION BETWEEN EAST AND WEST

There is general agreement on the need for a rapid build-up of local and regional structures in Central and Eastern Europe. It is, however, difficult to get a clear picture of the situation. There is a need to document the efforts being made at various levels and by various organisations, with a view to facilitating exchanges of experience and, possibly, coordinating certain efforts. The Council of Europe has already committed itself to development assistance to Central and Eastern Europe, in particular through the LODE programme. Studies should be made to follow up these efforts.

4. CO-OPERATION ON THE ENVIRONMENT

The environment is an important area of responsibility for local and regional authorities. Their commitment to Agenda 21 is one example of this, while at the same time being an example of the impact that an international initiative can have on local efforts. The Council of Europe's networks afford an opportunity for further developing the authorities' commitment to improving the environment. Exchange of experiences between local authorities in which nuclear power plants are situated are a case in point. Plenty of opportunities exist for similar initiatives within the framework of the CLRAE.

13. UNITED KINGDOM¹

The principal contemporary questions are:

- the passing of the Local Government (Overseas Assistance) Act 1993, which clarified the powers of UK local authorities to engage in technical co-operation projects with counterparts in Central and Eastern Europe and the developing countries.
- the recent passage of Acts to create unitary systems of local government in Scotland and Wales, and the progress of the review through the Local Government Commission which is likely to result in a diversified pattern of unitary and two-tier structures in England (outside the metropolitan areas) in 1986-1987.
- the recent increase to an average 80% dependency of local authorities upon central government grant, following the replacement of the disastrous Community Charge by the property-based Council Tax and the "nationalisation" of taxes upon commercial and industrial properties - and the associated launch of investigations by the Associations into possible alternative sources of revenue.
- the progressive transfer of functions previously carried out by local authorities to state agencies with appointed boards ("quangos") meeting in private - a major trend of constitutional significance. More details appear below.
- the progressive extension of Compulsory Competition Tendering, whereby local authorities are required to invite tenders from the private sector and from their own staff for the future operation of a specified proportion of their services (eg, refuse collection, highways work, catering, cleaning, professional services, etc).
- in this context, the promotion by the local authority Associations of new thinking about a possible future role for local authorities in commissioning health and hospital services on a democratic basis.
- a disturbing trend towards centralisation, as revealed by the findings of the independent Commission for Local Democracy.

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Quangos

The following is an extract from a discussion document prepared by the Association of Metropolitan Authorities (AMA) entitled "Changing the Face of Quangos: Proposals for the Reform of Appointed Bodies in England and Wales".

EXECUTIVE SUMMARY

1. Democratic government in Britain today is threatened by the growth of a "new magistracy" of appointees who sit on public bodies, spend taxpayers' money and take decisions (often in private) which should properly be the preserve of elected politicians. Recent years have seen the creation of locally appointed bodies that have taken functions from local government. Elected councillors have been removed from other bodies on which they used to sit as of right. QUANGOs now account for approximately £49.7 billion of public expenditure (about 20% of the total) - more than is allocated to local government in England and Wales in Revenue Support Grant.
2. On the other hand, elected local government has definite advantages as the level of government closest to the citizen, with local elected members representing geographic areas, public accountability for decision making and strong regulation by statute, the Audit Commission and other inspectorates and the local government ombudsman. The multi-party nature of local government means that an opposition is present to scrutinise the work of a council's administration.

KEY ISSUES THAT NEED TO BE ADDRESSED

3. *Democracy and accountability*: this has been eroded because QUANGOs decision making is shrouded in secrecy, their members are appointed and not elected, there is no formal right of access to information and meetings and there are few means of appeal or redress against their decisions.
4. *Transparency*: QUANGOs become the "unknown government of localities" because their decision making cannot be seen because freedom of access to information and meetings is not established. QUANGOs are "unknown" in three ways: firstly their existence is unknown; secondly, their proceedings are unknown; and, thirdly, their membership is unknown.
5. *Coterminosity and service coordination*: dividing responsibilities for local decision-making and service provision between the local authorities, devolved or contracted out services, joint authorities and QUANGOs threatens the fragmentation of local governance. This problem is reinforced when the geographical boundaries of the different agencies do not match, ie are not coterminous.
6. *Standards of public ethics*: holding public bodies to account by scrutinising their decisions and performance remains the best way of rooting out inefficiency and incompetence and detecting corrupt practices by members. By the same token, the absence of channels of accountability can lead office holders to believe that they enjoy office "for life" as of right and that the quality and ethics of their performance in office is of peripheral concern.

7. *Systems of appointment to public bodies*: political nepotism in the appointment of members of public bodies is now a pressing concern, yet the power of ministerial appointment makes this a possibility. The underlying problem is that appointment is often in secret with posts not being advertised or applicants sought. Appointment may be by the minister or by the appointees themselves. Boards may become self-perpetuating oligarchies and hence resistant to fresh thinking and unable to cope with new challenges.

RECOMMENDATIONS TO REFORM APPOINTED BODIES

8. The following recommendations are proposed to create a new democratic framework for the operation of QUANGOs:
- (1) The electoral process should be introduced into local governance wherever possible. Those who hold public office should be elected into it, and removable from it, by the public.
 - (2) Elected members from local government should be appointed wherever possible to the boards or managing bodies of local QUANGOs or the relevant local authorities should have a power of appointment to such bodies.
 - (3) Full lists of all appointed bodies should be maintained centrally. Such lists should be held locally for public inspection.
 - (4) All appointed bodies should be covered by the same principles as local authorities under the terms of the Local Government (Access to Information) Act 1985. Local appointed bodies should be required to supply such agendas to their local authorities.
 - (5) Full registers of appointed bodies should be maintained. These would be cross-referenced to indicate multiple membership and would include political affiliation. Local "mapping" exercises should be carried out in the absence of any Government action.
 - (6) Local authorities should be given a general competence to lead the formulation of strategic policies in consultation with others and manage the implementation of those policies.
 - (7) Boundary reviews should be undertaken to ensure service coterminosity.
 - (8) All appointed bodies should be subject to the same standards of external auditing and verification of financial and service performance as local authorities.
 - (9) Each public body should have a nominated, and independent, monitoring officer with responsibility for financial and general probity;
 - (10) QUANGOs should also be subject to investigation by an ombudsman on the same terms as local authorities.

- (11) There should be a national code of practice for all appointed bodies covering ethical conduct by members, declarations of interest (on the same terms as local government), surcharge and disqualification and auditing finance and service performance.
- (12) Each appointed body should have a published complaints procedure for service users and members of the public and employment protection should be given to employees who disclose malpractice, corruption or inefficiency.
- (13) Posts should be subject to open recruitment and appointment with proper standards of advertising, refereeing, short listing and interviewing, all using appropriate equal opportunities criteria.
- (14) "Politically sensitive" posts should be subject to a democratic process with members of bodies being nominated by local authorities.
- (15) An independent Public Appointments Commission or a Select Committee of the House of Commons should be set up to scrutinise and vet key appointments (eg Chairs and the membership of national QUANGOs) and to lay down national minimum standards for recruitment.