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Small Country Governance

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Summary

This note was prepared for the Commission on Public Service Governance and Delivery. It examines what is meant by 'small country governance', discusses whether it is a useful concept in Wales, and identifies lessons that might be drawn from international comparators.

It addresses four questions that are directly relevant to the Commission's work:

- Is the small-scale of governance in countries like Wales less alienating than larger more distant London or Brussels governments, and are international comparisons valuable?
- Is subsidiarity (whereby public service delivery ought to occur at the lowest possible level) a relevant perspective for the Commission to consider?
- What are the best governance arrangements for Wales given the resources at its disposal?
- Does the 'machinery of government' and the current structure and organisation of the Welsh Government and local public services promote or inhibit effective 'delivery'?

The available evidence points to five key conclusions:

- 'Small country governance' should not be a key issue for the Commission because scale is mediated by other factors such as politics, history, administrative traditions and economic capacity.
- Public policies do not respect being neatly confined to particular levels. Insofar as possible, however, it is helpful when there is a clearly defined separation of responsibilities between different tiers of government.
- There is a limit to the number of tiers that are advisable. More than two tiers in a country the size of Wales is likely to overcomplicate governance and service delivery.
- Many countries have a larger number of small municipalities than Wales but services like education are often delivered at a higher level of government which serves a large population. This might equate to the All Wales level for some services (such as secondary education), or to streamlined local government structures or regional partnerships for others.
- The All-Wales level should mainly be concerned with strategic steering, the distribution (and re-distribution) of scarce resources, the creation of performance incentives for service deliverers and foresight.

Introduction

This review of the research evidence regarding small scale governance has been commissioned by the Public Policy Institute for Wales for the Commission on Public Service Governance and Delivery. It draws on international comparisons and first hand data collected in three waves of interviews carried out in Wales between 2001 and 2013¹.

Is Small Best?

Size is the first element of the Small Country Governance triptic. Are small countries more socially just? Does size allow for tighter, more consensual relationships based on proximity? Are countries such as Scotland, Finland, Latvia, Denmark, Ireland, New Zealand, with populations of 2-5M, the natural comparators for Wales? Or is size merely an epiphenomenon and smallness a mirage?

Size, per se, is unlikely to be a factor taken in isolation. It is necessary to compare like with like. A number of small countries with which Wales compares itself are full member-states of the European Union, sharing some attributes, but not others. Cyprus, Latvia, Malta are all much smaller than Wales yet they are full member-states of the EU. Wales is therefore not, *stricto sensu*, comparable. It does not have the tools available to a full EU member-state and lacks substantive control over the budgetary instrument in particular. On the other hand, it is less isolated than the small EU states mentioned above, at least insofar as it can rely on fiscal transfers from UK central government and generous provision from EU structural funds. Moreover, it has influence on a large member-state (the UK) that ploughs an unorthodox yet influential path within the European Union.

One overarching question of central importance regarding size, is what role it is playing as a variable? For which political purposes? In order to draw precise policy lessons in terms of specific templates? One manner of responding to these questions is to interrogate the policy community in Wales over time, allowing us to capture changing perceptions of best practice and attractive or negative models from other administrations. The three phases of empirical fieldwork outlined above allowed temporally sensitive responses to questions about models of best practice and trans-national policy learning to emerge. A number of regularities could be observed across the period, sometimes in relation to countries/regions in general, on other occasions with reference to specific policies in foreign administrations (for example, early years education in Finland, or apprenticeships in Germany).



During the early interviews the overwhelming comparator was Ireland, then in full economic expansion. Ireland was valued for its scale (around 4,000,000 inhabitants), for its economic dynamism (especially through its innovative use of corporation tax) and for its common institutional heritage with Wales for part of its history. In the more recent rounds, the most frequent references were: Scandinavia in general, Scotland and Ireland. ‘Joined-up governance’ was identified in terms of a holistic approach to society, welfare and economy that was felt to characterise Scandinavian social democracy (especially Finland and Sweden). Ever since 1999 Scotland has been the obvious comparator, with events in Scotland strongly influencing the evolution of Welsh devolution. Many interviewees across the three periods stressed ideological and political proximity, but admitted that events in Scotland had created uncomfortable and permanent pressures on Wales to adapt. Other references were more specific and focussed on types of cultural or political innovation. Catalonia was lauded for its policy ambition and cultural affirmation; the Spanish regions in general were looked to as a model in the earlier interviews. Beyond Europe, Commonwealth states such as Australia, New Zealand and Canada (or regions therein such as New South Wales) were most likely to be identified as being able to offer precise lessons. This should not come as a major surprise as processes of policy learning are often shaped as much by ‘social psychological proximity’, such as a common shared history and language, as geographical propinquity (Rose 1993, 107).

These initial comments about size strongly suggest that population, per se, is likely to be less important than the configuration of a specific territory in relation to comparable territories, social and economic similarities, types of public service delivery and overarching state-type. Therefore wider territorial configuration, rather than size alone, is likely to produce a more productive dialogue with examples from other administrations.

Rather than size, per se, we argue in favour of understanding the concepts of *political capacity* and *soft convergence*, as a preliminary to engaging in a process of strategic *scalar reflection* (section two).

- We understand *political capacity* both in a material and a more constructed sense. Reduced to its core, material capacity building comprises two closely related but distinct components: political institutions and policy outputs. Formal institutional capacity refers most obviously to the rule-making potential of political institutions and their ability to define norms. Though Wales is a region in the EU’s vocabulary, it has wide legislative powers (on the conferred powers model) which pushed it to become a member of REGLEG (Regions with Legislative Powers) from 2001, well before the Government of Wales Act 2006 and the 2011 referendum accorded primary

legislative powers to the devolved Welsh Assembly. On the other hand, Wales does not possess the full panoply of sovereign state powers, particularly in relation to fiscal autonomy. Despite recent debates regarding the transfer of taxation and borrowing powers, Wales remains relatively weak in terms of fiscal powers when compared to many regions across Europe (highlighted by Hooghe et al.'s (2010) *Regional Authority Index*). However limited their exercise in practice, small EU member states have more developed forms of political capacity than the 'national regions' constituted by Scotland and Wales – for the moment, at least.

- In terms of governance style, we have described Welsh devolution in the first decade in terms of a hybrid of 'soft convergence' and 'constructed divergence' (considered in the final section) '*Soft convergence* draws upon Rose's (1991, 21) analysis of lesson-drawing, which he defines as 'a program for action based on a program or programs undertaken in another city, state or nation, or by the same organisation in the past.' Processes of policy learning fall neatly into this category; examples from other Small Country governments in other places were used liberally to justify policy directions during the first decade. The direction of travel was not a singular one, however. Welsh politicians, civil servants and civil society actors expressed pride in the achievements of Welsh devolution and celebrated the propensity for export of some of its key innovations (for example, the Children's Commissioner, gender parity, environmental sustainability and the bilingual polity).

A number of examples of instances where perceived successes have influenced new policy directions stand out, especially in the field of education and training:

- Early years learning examples from Finland and Sweden
- Apprenticeship models from Germany
- Partial employment from Germany/Denmark (flexisecurity)
- The Welsh Baccalaureate as a means of bridging the academic-vocational divide
- Language policy (and the protection of minority languages) from Canada
- Corporation policy from Ireland – by far the most frequently cited foreign example.
- Best practice in gender parity in Scandinavian countries

It lies well beyond the word limits (and methodological possibilities) of this report to engage in any meaningful cost-benefit analysis of these policies undertaken in different times and places.

It is essential, however, *not to take the mantra of small country governance too literally*. Since the beginning of the financial crisis in 2008, small countries - both within and beyond the EU - have faced a range of powerful dilemmas and highly challenging decisions. In the case of Latvia and Estonia, for example, these have involved preparing for Euro membership by drastically limiting public expenditure and rolling back public services. In the case of Iceland, outside of the protection of the euro-zone and the European Union, a major default on international loans has created a de facto exclusion from international capital markets. In the extreme case of Cyprus, a peripheral country was left with no choice but to allow the 'Troika', made up of the European Commission, European Central Bank and International Monetary Fund, to dictate a general 'haircut', for the first time affecting individuals as well as institutional investors. The long favoured comparator of Ireland is still attractive; but the Irish case pleads for caution. Even Ireland, with incomparably greater political and budgetary resources than Wales, has struggled to recover sovereignty, control of its banks and restore public services. Similarly other small countries such as Greece and Portugal have retained little autonomy over public service delivery. The case of Scotland deserves particular attention; whatever happens in the September 2014 referendum and its aftermath will have an impact on Wales. The Scottish Nationalists have built their credibility in part on their managerial credentials, but have in turn been somewhat undermined by their celebration of the 'Arc of prosperity' from Iceland to Ireland, as well as by their difficulty in answering hard questions about retaining levels of public service provision, for example, in pensions and healthcare, about future monetary policy and an independent Scotland's relationship to the European Union. A Wales Office official argued that the economic crisis had highlighted that 'smaller economies would have great difficulty' and therefore an independent Wales would have struggled to cope in this context.

Small country governance is not a panacea, but identifying those fields that are particularly germane to endogenous influence (hence engaging in *strategic scalar reflection*) is a worthwhile exercise.

What is the most appropriate scale to deliver public services?

Is the small-scale of governance in places like Wales less alienating than in the larger scale (and more distant) London or Brussels? Such an image is certainly an attractive one. In the complex world of the global economy and European integration, issues of the most immediate concern to citizens ought to be dealt with locally. On the other hand, most public services are delivered as part of a complex pattern of 'multi-level governance'², even in

seemingly territorially specific issue-areas, such as education and health. Recognition of the interdependency of the modern world can produce much smarter strategies in areas that matter for Wales. In the context of post-sovereignty³, regions or small states must recognise that they will not be able to exercise 'sovereignty' in the international political economy or fully control the levers of economic policy. On the other hand, they might be able to adopt original policies in preferred fields such as the environment, social policy, health, education, culture and economic development, especially by pooling resources and expertise and exchanging knowledge. Hence the argument that strategic scalar reflection is more important than size, per se, in determining the optimal model of public service delivery for Wales.

EU wide doctrines such as *subsidiarity* assist this process of scalar reflexivity. Subsidiarity has its origins as a Catholic social doctrine and was formally enshrined in Article 5(3) of the Treaty on European Union (Maastricht Treaty) but it has achieved wider analytical purchase (including, paradoxically, in the 'localism' espoused by English eurosceptics). The fundamental core of subsidiarity is that public service delivery ought to occur at the lowest possible level.

- In most continental European systems of sub-national government, matters of immediate proximity (low-level social assistance, administrative port of first call, planning permission, waste) are the preserve of municipal councils or their equivalent.
- Social policy (social assistance, intermediate education, social services, income support) is likely to be delivered by intermediate authorities (such as the departments in France); there is a long tradition of local government as the delivery arm of the welfare state in countries with very different legal rules and political traditions.
- Matters deemed to be more strategic are, in theory, the preserve of elected Regions (Italy), *Länder* (Germany) or autonomous communities (Spain). 'Strategic' policy fields include economic and spatial development, vocational training, transport infrastructure, secondary education, culture, sometimes the environment.
- Fiscal policy and social security are generally regulated at the central state level, even in highly regionalised states such as Belgium and Spain.
- Regulation, competition, trade, environment and monetary policy are the preserve of the EU level, at least for the countries of the euro-zone.

Is such a schema relevant for Wales? Can this international evidence be adapted to the Welsh case? One Welsh Local Government Association official interviewed in 2012 came

very close to the above logic by arguing that the support for more devolved powers could be seen as part of a global ‘push towards decentralising powers...and shifting decisions about how services are provided and how funding is allocated to as near to the point of delivery as possible.’ Decentralisation *within* devolution implied service delivery at the point of delivery, in most cases by local authorities. The local government officials interviewed in 2012-13 routinely complained of the centralism of the Welsh Government, especially in the field of education – highlighted by the top-down introduction of school banding and regional education consortia. Indeed a key concern following devolution was the extent to which newly devolved administrations would be characterised by a ‘decentralisation of centralism’ or ‘regional centralism’ (Jeffery 1998; Laffin 2004).

From a rather different standpoint, however, ‘the question that has to be asked is whether it is sustainable to have 22 local government units in Wales doing the full range of activities?’ The civil service view was that local government had enjoyed a golden age of ever increasing public spending during the first decade of devolution: ‘we sometimes just chucked money into the local government settlement without thinking about what outcomes it was trying to achieve’. There was a realisation across the board that financial pressures were having an impact – delayed but real – upon public service delivery and an increased emphasis on delivering more for less. A Welsh Government official stated that the crisis had ‘accelerated the pace of change in terms of public service delivery in Wales’. However, it’s important to note that the debate regarding the effective delivery of public services within Wales predated the financial crisis and recent reviews, such as the Simpson review and Learning to Improve. The initial shift towards regional collaboration in transport policy, for example, emerged in the immediate aftermath of local government reorganisation in 1996 (The regional partnerships, South Wales Integrated Fast Transit (Swift) and Transport Integration in the Gwent Economic Region (Tiger) were formed in 1996 and the South West Wales Integrated Transport Consortium (SWWITCH) in 1998).

Debates about scale and size cannot be dissociated from broader political preferences. The testimonies we received in our 2012-2013 round of interviews were highly revealing of the accidental and somewhat irrational distribution of service delivery responsibilities between layers of government. The institutional consequences of choices about size and scale are important.

- If proximity is valued as a basic civic principle, then does it follow that local government ought to be vested with a general administrative and political competency and granted extensive local fiscal autonomy, the key provisions of the Council of Europe’s European Charter of Local Autonomy? Governments, whether in

London or Cardiff, have thus far been reluctant to concede these demands, especially for meaningful local fiscal autonomy.

- Or are public services such as education likely to be more efficient if they are managed in as impartial a manner as possible, isolated from contextual local differences? If so, effective regulation and the distribution of scarce resources might require a more centralised approach and willingness to measure performance across the sector.

These stark political choices have not yet really been made, though there is movement in this direction, notably in education.

Before engaging further in more fine-grained analysis in relation to why these discussions matter for Wales, there are two caveats. First, across all state types – federal, union, unitary, regional - in practice, public services can rarely be attributed to only one level of public administration. The neat division into competencies (the 'layer cake' model) might make good legal or political sense. But in practice policy responsibilities are usually overlapping by their very nature (the 'marble cake' model) (Entwistle *et al.*, 2012). Public policies do not respect being neatly confined to particular levels. Once policies are spread across levels of government (and even more so when they include private actors) inter-organisational dynamics become important (herein lies one of the difficulties of the collaborative public services agenda).

Second, the type of state has an impact upon service delivery. Devolved governance in Wales retains key features of a recognisable Westminster-style majoritarian-style democracy, the calls for all-inclusive politics or joined up democracy notwithstanding. Public services in England and Wales are less routinely subjected to administrative tribunals or constitutional courts for arbitration than in nearly all continental European states, whether of the federal or unitary variety. While the creation of a separate legal jurisdiction for Wales might alter this state of affairs, even this would fall far short of a constitutional court (as in Germany, Spain, France, Italy, the United States) to render definitive judgements, or even a Council of State to arbitrate on issues of public law. In the absence of such legal counterweights, public services will need to continue to be defined by detailed legislation.

Which levels matter for Wales?

Bearing in mind this caveat, we might use comparative examples to extrapolate which services ought to be delivered at different 'levels' in Wales.

The Local Level

Welsh local government has been based since 1996 on 22 unitary authorities. This major structural reform preceded the creation of the National Assembly for Wales. Politically close to local government, the young National Assembly for Wales appeared early on to consolidate the position of local authorities. A wide range of factors have been identified as shaping this process including the need to secure local government support ahead of the 1997 referendum, the 'policy development deficit' of the newly devolved administration, the importance of 'partnership' to the policy style of the devolution and the close relationship between the Labour Party and local government (Laffin *et al.* 2002; Entwistle 2006). Regardless of its causes, the newly devolved administration did little to address the problems of scale and administrative duplication involved in retaining 22 unitary authorities. In the opinion of one critical observer:

'At the time, when we moved from the 8 Councils to the 22 what was said very strongly was that we are not going to have 22 of everything. We are not going to have 22 directors of education - we will have lead authorities and the others will work with it. In fact, that didn't happen. We have got 22 of everything because the emphasis was very much on local accountability'.

Observing municipalities in other EU states, core municipal functions typically include: local planning permission, building permits, the building and maintenance of primary schools, primary education, waste disposal, first port of administrative call, local transport, fire-fighting, some social services, social housing. These service delivery responsibilities are not exclusively the institutional domain of the local level, and usually involve a variety of actors. In education, for example, local (municipal) authorities usually exercise responsibilities in primary education, but the regulation of the secondary (11-18) sector is assured by the higher/next level. One of the options for Wales might be to reduce the number of education units for which a local authority is responsible. In the words of one interlocuteur: 'FE colleges are no longer delivered by local government; maybe secondary education will be taken out which will leave them with primary education.'

The local level is mainly an operational one. The real debate is whether, within certain limits, the Welsh government wants to align itself with the Council of Europe's best practice in terms of local autonomy: notably by granting a general administrative competency to local authorities (the adaptation at a local level of a 'reserved powers' model, a weak model of which now exists in England) and by conferring more local taxation powers on local authorities.

How to tackle the problems of administrative duplication and to achieve economies of scale is one of the key problems that the Williams Commission needs to address. Given that local authorities remain central for policy implementation, the Commission might want to pay attention to local government reorganisation as the major reform of the machinery of government.

The Regional Level

Though regions do not formally exist in Wales, there are regional consortia (for South East Wales, South West Wales, Mid Wales and North Wales) with responsibilities in economic development, transport and education, along with the 7 health boards. The Regional Level, in the Welsh context, is broadly equivalent to the French departments or Spanish provinces or the larger local authorities in Germany. Consistent with the language used by public administration specialists, we label these intermediary bodies as forming the meso-level. The meso-level is in part encompassed by elected levels of local government above the municipal councils (see above). It also typically describes a host of mainly unelected bodies that deliver specific public services, or which pool resources to coordinate responses across formal local authority boundaries. Intercommunal syndicates in France, special purpose agencies in Germany or the Netherlands, agencies in England all fall into this category. Meso-level public authorities can have responsibility for economic development, town planning, regional transport consortia, training, lower secondary education, some health, some welfare services.

The meso-level authorities are best conceptualised as mid-strategic, mid-operational entities. In each of the above examples, there are controversies over the extent to which public services are delivered without the safeguards of democratic accountability, or on the basis of indirect forms of election. If there are few examples of directly elected regional authorities in small countries – the meso-level between local and central government – restructuring local government would provide one means of reducing administrative duplication and rationalising back office functions, while allowing for democratically accountable local authorities. The use of the meso-level via regional collaboration as an alternative to local restructuring is not without its costs and requires substantial commitment in order to avoid ‘collaborative inertia’ (Sullivan & Skelcher, 2002; Koppenjan and Klijn, 2004; Huxham and Vangen, 2005). Huxham and Vangen (2009, 42), for example, conclude that ‘making collaboration work effectively is highly resource-consuming and often painful’ and that the strongest piece of advice that they could give policy-makers would be ‘don’t do it unless you have to.’

Indeed, the effectiveness of regional partnership arrangements within Wales has been the matter of much debate, for example, the Ministerial Advisory Group's *Phase 2 Report on Transport* (2009, 56) stated that the regional consortia did 'not appear to be adding any significant value' and the recent Hill review of *The future delivery of education services in Wales* (2013,15) identified 'no shared understanding on the scope of activity that consortia should be undertaking, unnecessary inconsistencies in how they are operating, weak organisational structures and executive leadership in some consortia.' The Welsh Government's attempts to strengthen the regional or meso-level through measures including the creation of a common geographical footprint for collaborative activity, the principles outlined within the Simpson Compact and the Regional Collaboration Fund, should be welcomed but the challenges of collaboration remain.

The All Wales level

It lies beyond the remit of the present note to discuss the relative merits of the conferred versus reserved models of legislative authority, or to engage in a discussion of the financial or legal dispositions of Welsh devolution. Closely linked to the earlier debate on political capacity, our central questions here are: what can devolved government in Wales achieve given the resources at its disposal? What does 'Cardiff taking the place of Westminster' imply? Can it draw lessons from other countries, whatever their size?

What can devolved government in Wales achieve given the resources at its disposal?

Material resources are an important dimension of effective service delivery, either in terms of the financial resources that fiscal autonomy can deliver or the proxy resources produced by the private management of public goods (through PFI, concessions, or public-private partnerships that are widespread across Europe), instruments the Welsh Government has largely eschewed in contrast to the market-orientated agenda pursued in England (Roy 2008). The level of fiscal autonomy and capacity is central to shaping the material resources of sub-central administrations but varies considerably across States (Blöchliger and King 2006). In terms of formal fiscal autonomy and capacity, the current situation in Wales is unique: both the Holtham(2009, 2010) and Silk Commission (2012) reports noted that no other government in the world receives a block grant which it is free to spend as it chooses, but has no powers to raise or control its own revenue. However, UK government, in establishing the Silk Commission, deliberately excluded consideration of the block grant from its remit; it is in its interests to avoid scrutinising that part of the system. Demands for more advanced fiscal autonomy by Welsh politicians, however, are lukewarm; they are conscious of the sizeable fiscal deficit (i.e. the differential between the cost of public services and the

capacity to raise revenue) that Wales maintains with England but the ability to borrow in order to invest in major infrastructures projects, such as the M4 relief road, remains highly attractive. For its part, the UK Treasury is nervous about granting the devolved authorities in Wales borrowing powers or access to international bond markets as this would potentially add to the future national debt (as in the case of the Spanish regions).

So, what can devolved government in Wales achieve given the resources at its disposal? To conclude that Wales lacks the substantial levers to undertake innovative public policies would be misguided. Wales has a much more complex resource profile than, say, an English region. Though it ranks modestly in terms of stand-alone fiscal capacity (with virtually no fiscal autonomy), or GDP by head of population, it possesses a set of political institutions that have developed incrementally over more than a decade and that represent in some respects a 'settling will' in favour of a more autonomous set of arrangements within the United Kingdom. Financially, Wales has been relatively spared in successive comprehensive spending reviews, and public services have been relatively sheltered from the worst of the spending cuts experienced in England due to the Welsh Government's decision to not match the UK Government's commitment to 'protect' health spending (Drakeford 2012). Welsh devolution currently enjoys a positive image in public opinion, together with a widespread belief that the Welsh level of governance ought to be the most pertinent one in those areas that are most valued by Welsh citizens (education, health, welfare) (Wyn Jones & Scully, 2012). Such a foundation of broad support ought to be a precious political resource, on condition that Welsh democracy moves to a new level of maturity, accepts more political and financial responsibility for its actions and makes some hard political choices about the machinery of government.

What does 'Cardiff taking the place of Westminster' imply?

A powerful metaphor used in one of our interviews was that of the slow process of recognising that 'Cardiff was taking the place of Westminster', especially in terms of local government. However constrained its financial resources might be, 'Cardiff' (i.e. the Welsh government) has responsibility for the strategic distribution of scarce resources. One key feature of the UK state remains the centrality of local authorities for implementation. Though vastly enhanced over one decade and a half, the Welsh 'centre' remains relatively modest (6000 civil servants). There are far fewer agencies than elsewhere in Europe to implement specific tasks. Service delivery occurs via local government, the NHS or a relatively small number of public establishments. Hence, key attention should be paid to local government reorganisation, amongst other questions related to the machinery of government and processes of governance.

Can it draw lessons from other countries, whatever their size?

The evidence from other European countries in relation to strategic steering is mixed. There are, in general, either constitutional guarantees for lower echelons of local authority, or normative guarantees, along the lines of the European Council's Charter of Local Self-Government. But there is also a distinction to be drawn between those countries that explicitly recognise leadership of the regional (in EU terms) level – Germany, Spain, Italy – and those which do not establish a hierarchy between types of local authority (notably France). The German Länder provide a useful comparison and operate on a similar scale to the Welsh Government, although clearly the federal character of Germany is in stark contrast to the UK. They are primarily involved in the regulation of local authorities or public agencies, rather than in direct service delivery. The federal reform of 2006 aimed to disentangle the levels of government in Germany by reducing the influence of the Länder governments in Federal policy-making whilst strengthening their legislative competences (Burkhart 2009). Notably education services in particular have been overhauled, with the Länder influential actors in secondary and higher education.

In sum, the nature of devolution within Wales and the experiences of similar territories across Europe suggests that the All-Wales level should focus upon strategic steering, the distribution (and re-distribution) of scarce resources, the creation of performance incentives and foresight, rather than primary responsibility for the direct delivery of public services.

The UK level

It lies beyond the parameters of the current note to engage in discussions about the future of the UK level, especially given the uncertainty surrounding the outcomes of the Scottish referendum (and its consequences for Wales) and whether the nature of the England and Wales relationship will be altered in the event of the UK (with or without Scotland) leaving the European Union. Even in highly regionalised states such as Belgium and Spain, however, fiscal policy and social security are generally regulated at the central state level. In the case of the UK, monetary policy also remains a UK level competence and is likely to remain so for the foreseeable future, as is defence and foreign policy, immigration and citizenship.

Most small EU member-states are extremely constrained in terms of their macro-economic capacity. Greece or Portugal, for instance, though rather larger than Wales or Scotland, are arguably too small to be economically viable in the absence of high value-added economic resources. The dire economic circumstances these countries find themselves in has produced a form of externalisation of the control of domestic service delivery, with the Troika

closely monitoring expenditure and performance on public services. The case of Ireland is the most emotive, from a Welsh (and broader UK) perspective, with the Celtic tiger being forcibly rescued by the Troika in turn for a strict external supervision and control over public services, cuts in expenditure and employment and a rolling back of social rights. The fate of Cyprus, finally, reminds us of the enduring fragility of small states forced to play by the rules of eurozone governance. Only very small city-states such as Luxembourg (or offshore enclaves such as Monaco) are able to counter this trend. In these circumstances, Wales' interest would appear to be within the United Kingdom, at least for as long as the latter remains part of the European Union.

The EU level

Regulation, competition, trade, environment and monetary policy are the preserve of the EU level, at least for the countries of the eurozone. In varying types of EU nation-state, initial findings from our Leverhulme project suggest that the European reference is increasingly less attractive in terms of boosting the collaborative service provision agenda identified as one feature of small country governance. Small country public service delivery is increasingly influenced by the macro-economic and monetary environment, even in the case of countries such as Finland (5M) and the Netherlands (14M), two fiscal 'saints' having to face powerful populist reactions to economic austerity and EU adjustment.

However, it remains clear that Europe matters for Wales. The European Union provides substantial resources for Wales through its regional structural funds, the Common Agricultural Policy and the Single European Market. Engaging positively with the EU is of vital interest for Wales: governing agriculture, structural funds, rural development or social policy is facilitated by defining a domestic project that differs somewhat from that of England, but finds support in the broader EU context. What's in it for Wales today? Have these attractive features of a European engagement been called into question by the economic and political crises? Can Wales stand alone from either the United Kingdom, or Europe? These real questions have no easy answers. But it is difficult to see how Wales would prosper in a United Kingdom without Scotland and adrift from the EU.

Strategic Choices and Recommendations

Three main types of recommendation emerge from this note. Each is cognisant of the need to recommend pathways that engage with the theme of the optimal delivery of public services and with due regard to what the Welsh government can do within existing resources

Local Government

The first sets of recommendations concern local authorities. Our interview evidence from across the board suggests there is a settling will that the re-organisation of local authorities might be a necessity for the effective delivery of public services. The emphasis on regional collaboration, for example, was viewed from the local government chief executive perspective: 'For many it's starting to look like reorganisation by the back door to be perfectly honest. Some of our chief executives have said to senior civil servants why don't you just reorganise local government and the response is that, well, it would all be too difficult, it would all be too expensive you know'. This quotation emphasises that a key hurdle for any reorganisation are the high opportunity costs of reform, a theme repeated in other interviews.

There might also be unintended consequences with introducing far-reaching reform. One interviewee expressed this at some length:

Local government reorganisation takes a lot of time, costs a lot of money, invariably there is a performance dip before things pick up again, which means then that you would have to be a brave government to tackle any of that. And what you get then is the tension between short-term political cycles and long-term gain. So I suspect that everybody privately recognises that that's what's needed, but if you're the First Minister, there are all sorts of short-term problems that you're going to encounter before you see any gain. It's a bit like school reorganisation: privately everybody recognises the benefit of school reorganisation, closing some schools and building bigger schools, but those people affected in the immediate sense, in the short-term, kick up a hell of a fuss before recognising the benefits of building a brand new bigger school, and the politicians also know that if they're going to be deselected or they're going to lose an election, it does concentrate their mind. The same thing prevails with local government reorganisation as well I think. Every health expert I ever talk to thinks we've got too many hospitals in Wales. Closing hospitals, as you know, is just extraordinarily difficult politically, and nobody has wanted to grasp that nettle. But they may well be approaching a cash crunch where the nettle has to be grasped. It's a shame it has to happen like this'.

The last sentence emphasises the scope of the challenge for the Welsh Government. Whether or not reorganisation is undertaken, the strategic distribution of scarce resources implies that the All Wales level must take responsibility, if necessary, for closing schools and hospitals, reorganising local authorities and assuming lay-offs. Only the All Wales level has sufficient political legitimacy to take difficult choices in many of the key devolved competencies. In our latest set of interviews, a WLGA official explained that local authorities in Wales were following the Welsh Government's commitment to protect the 'statutory and

iconic local services', education and social services, and therefore the weight of cuts had fallen on non-essential or discretionary public services, such as libraries and leisure facilities.

If local authority reorganisation is undertaken, the principle debates will once again centre on size, financing, competencies and solidarity (Boyne et al. 1992; Thomas 1994; Pemberton 2000):

- 7-8 strategic authorities?
- Mode of election?
- Degree of fiscal autonomy?
- Smaller municipal authorities for first level services?
- Or field units to cover local needs?

A key challenge in any reorganisation will be managing the inevitable conflict between political interests and avoiding simply recasting the sub-optimal arrangements produced by the 1996 reforms. An alternative to full-scale reorganisation, would be to rethink the distribution of competencies between the existing local authorities, the regional consortia and the All-Wales level. Even within the existing structure, Wales could choose to align itself with some other European countries with local government providing waste services and primary education but not, for example, secondary education or social services which would move 'up' to the regional or national (Wales) levels.

Whichever model is preferred, public service delivery will need to respect key principles: *inter alia* territorial equity, solidarity-based transfers from rich to poorer authorities; or the difficulties on delivering public services in rural or mountainous areas.

Performance management and indicators

Our second main area of recommendation, cognisant of what the Welsh government can do with existing resources, concerns the need to move beyond the negative stereotyping of policy in England.

Defining the new devolutionary project in terms of joined-up public service delivery and *against* market solutions was a constitutive act for the new devolved governments in Scotland and (especially) Wales. As it developed in England, individual choice in public service delivery, using market or quasi-market mechanisms to enhance efficiency and promote consumer rights, was an article of faith for Conservative and – to a degree – New Labour administrations. Work on local government reform in England and Wales showed very clearly that there was divergence during the first decade, as England introduced hard

edged, top down performance regimes based on ‘terror and targets’, which policy makers in Wales turned their backs on in favour of ‘partnership’ between central and local government and self assessment by local authorities (Martin and Webb 2009).

What we label as constructed divergence was part of the foundational *phase* of Welsh devolution. Constructed divergence largely centred around negative representations of public policy in *England*, especially in education (league tables, academies, inspections regimes), health (foundation hospitals, purchaser-provider split), and the involvement of private firms and finance in providing public services. Such divergence was - and remains - constructed, insofar as it relied more upon depicting a neo-liberal adversary as a negative model rather than engaging in real evidence-based comparison. In the 2001-2003 and 2010 rounds of interviews, it was not uncommon to hear civil servants lament the hostility of their political masters towards even considering ‘interesting’ innovations taking place in England (Cole, 2012). Such negative scapegoating can be laid at the door of a young quasi-polity seeking to establish its mark and define its style.

A mature Welsh democracy must go beyond the celebratory affirmation of difference. It must accept a much harsher regime of international benchmarks and accept internal and external criticism. The enhanced performance management and inspection regime introduced in secondary education under the former Minister for Education, reflects the Welsh Government’s concern to raise performance and reputation internationally. The use of the PISA benchmarks in education to drive through reform is probably illustrative of the future direction that Welsh devolution will need to take if more autonomy is to be sustainable.

Pluses and minuses of small country governance

Reference to the innate qualities of small countries is attractive. The fate of several small countries in the post-2008 economic crisis, however, gives real cause for concern. Moreover, our investigation casts doubt upon whether small countries are principally noteworthy because they share generic features, because they are economically vulnerable (with a few notable exceptions) or because they have very different levels of political and material capacity. Small country governance is primarily a discourse (i.e. the process of persuasion of the well-being of a policy and the appropriateness of a course of action) rather than an objective state associated with quantifiable and consistent policy outputs. The desirable features from a Welsh governance perspective – sustainability, bilingualism, gender parity – are probably more associated with a pattern of diffusion promoted by multi-layered governance (and specifically the influence of the European Commission), as they are with horizontal lessons from other public administrations of comparable size. Wales

punches above its weight in a context where it can mobilise a large EU member-state – the United Kingdom – and belongs to the world’s most prosperous single market. Thus its future must lie within these two Unions.

Footnotes:

¹Interviews were undertaken in three waves - from October 2001 to March 2004, as part of the ESRC-funded project *Devolution and Decentralisation in Wales and Brittany* (L252152007), from January to April 2010, as part of a series of confidential interviews with leading civil servants working for the Welsh Assembly Government (as then was) and from late 2012 to July 2013 as part of the Leverhulme Trust project *Territorial Governance in western Europe between convergence and capacity* (IN-2012-109).

The 2001-2004 interviews were carried out with a panel of politico-administrative actors that incorporated, *inter alia*, the Wales Office, the First and deputy First Minister, the Policy Unit, the Cabinet and Constitution Unit, the Education and deputy education ministers, officials in the Training and Education division (x4); the European and External Affairs division (x2), the WDA (x3) ELWa (x3) WTB (x2), the Presiding Office (x 2); and the Committee Secretariat (1). Interviews were conducted at Director, Deputy-Director, and special advisor levels, as well as with a broad range of politicians (Ministers and Assembly members) and in the broader policy community. Anonymised transcripts for most interviews are contained in 'Devolution and Decentralisation in Wales and Brittany, 2001-2002', UK Data Archive (www.data-archive.ac.uk), Study Number 4802.

From January-June 2010, 12 interviews were carried out with senior civil servants of WAG, at Permanent Secretary, Director-General, Director and Deputy-Director levels. These interviews were organised, conducted and transcribed as part of the activities of the ESRC- and HEFCW-funded Wales Institute for Research, Data and Methods (WISERD) and Cardiff University's Wales Governance Centre.

In 2012 and 2013 a total of 25 interviews were carried out with a panel composed of three cognate groups: devolved government, regional or regional state actors; representatives of professional and policy communities in the fields of public finance and secondary education; elected representatives with competence in the field, controlled for by party affiliation. A common interview schedule and equivalent panels were then identified in our comparator regions of Brittany, Andalucia, Wallonia and Saxony. The PI thanks the Leverhulme Trust for its generous support.

² By multi-level governance we signify: legal and political order that encompasses several levels of government (in EU terms, regional, member-state, European), and a policy process that encompasses actors from each of these levels, as well as non-governmental players such as professional groups, firms, and civil society associations. (Hooghe & Marks 2001; Bache & Flinders 2004; Piattoni 2010).



³ The concept of post-sovereignty is used notably by Keating (2001) to describe a situation where there is a blurring of the contrast between states and regions. According to this approach, States are no longer able to pretend to exercise sovereignty in core traditional areas such as monetary policy or even defence, while regions (and the EU) have encroached on areas seen as lying at the heart of state sovereignty such as foreign policy.

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