

# ECONOMIC PERSPECTIVE 1

## THE IMPACT OF SCOTTISH LOCAL GOVERNMENT REFORM ON LOCAL ECONOMIC DEVELOPMENT

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If the timetable set out by The Scottish Office in its recent Consultation Paper, "Shaping The New Councils" (The Scottish Office, 1992,a), goes according to plan there should be a new system of local government in Scotland by April 1996. The Paper makes out a case for reform based on such factors as a lack of understanding of the existing system and the difficulties that residents have in identifying with some of the larger authorities. It then goes on to outline the principles upon which the new system should be based. Despite this attempt at objectivity there must be a suspicion, however unjustified, that reform will be used to increase the power of Central Government at the expense of the local authorities. Such suspicion is particularly strong with regard to local economic development, a local authority activity that has tended to be regarded with some ambivalence by Central Government. Accordingly this paper will consider the likely impact of the reform proposals upon local government's economic development role.

### The existing local government system

The present Scottish local government system is based largely upon the recommendations of the Wheatley Committee (Royal Commission on Local Government in Scotland, 1969). The Committee felt that local government had an important role to play in what it called "industrial development". This was seen as covering a wide spectrum: from research to the direct provision of loans. It proposed that a 2-tier structure be set up, with both tiers having powers to assist industry. Although the split of responsibilities was not detailed the expectation was that the upper tier, the regions, would be mainly responsible for research and strategic decisions upon industrial location. The districts, the lower tier, were seen as being more concerned with the direct provision of aid to industry.

Wheatley's recommendations were implemented in 1975, although there were some boundary changes and service reallocations between the tiers. In mainland Scotland an upper tier of 9 regions, with responsibility for the majority of services, and a lower tier of 53 districts were created. The industrial development service was split between the tiers.

The formation of the regions caused resentment

particularly from the former cities which lost many of their powers. In their evidence to the Stodart Committee, which reviewed the workings of the new system (Scottish Office, 1981), they argued that they should be given all or most-purpose status. The Committee recognised that many of the problems with the new system would be solved if single tier authorities were created. However it felt that the merits of such a system needed to be considered on a Scotland-wide basis rather than in response to the pressures from individual authorities. Accordingly it limited itself to making a number of recommendations intended to clarify the responsibilities of the 2 tiers.

For economic development it proposed that the regions alone should have powers to assist industry. The Government's response was contained in the 1982 Local Government and Planning (Scotland) Act. Rather than take away the districts' responsibilities the Act defined more clearly the industrial promotion roles of the 2 tiers. Essentially the districts were only allowed to become involved in general industrial promotional activities within their own boundaries or elsewhere if specifically invited by a region or other body designated by the Secretary of State.

Economic development has therefore remained a service split between the tiers.

### A unitary system

The Scotland-wide consideration of the merits of a single-tier system had to wait for another 10 years. In June 1991 the Secretary of State published a Consultation Paper on the reform of local government (The Scottish Office, 1991). This argued that the 2-tier system, despite the implementation of some of Stodart's recommendations, was still flawed and that circumstances had changed markedly since the 1970s. The arguments put forward in favour of reform, of relevance to local economic development, were:-

- a) duplication and implied waste caused by both tiers still having responsibilities for "industrial development"; and
- b) the formation of Scottish Enterprise and the local enterprise companies (LECs) that, it was

claimed, were now "largely" responsible for economic development. This was in marked contrast to the situation in the 1960s when this was seen as being primarily a local authority responsibility.

The Paper strongly argued that the establishment of a single tier of unitary authorities would resolve many of the problems apparent in the present system and be far more relevant to the 1990s. To this end comments were invited. The outcome was the publication of a second Consultation Paper, "Shaping the New Councils" in October 1992 (The Scottish Office, 1992).

### **Shaping the new councils**

The emphasis in this Paper is upon how a single tier system of local government should operate rather than the need for change. To help in this 4 possible unitary structures, of 15, 24, 35 and 51 authorities, are illustrated. The impacts of each upon the main local government services are then considered. Local economic development, one assumes following Wheatley, is described as "industrial development". The section dealing with it acknowledges that local government has provided a range of services, both on its own and in partnership with others. The statutory basis for such provision is described as "broad" and "discretionary". This is because economic development is legally justified by a variety of statutes including the general power contained in Section 83 of the 1973 Local Government (Scotland) Act and an assortment of other legislation. This is in marked contrast to the situation in England and Wales. There local economic development was placed upon a statutory footing by the 1989 Local Government and Housing Act which, under Section 33, gave local authorities a specific, discretionary economic development power.

The Paper suggests that consideration should be given to introducing similar legislation in Scotland. The justification for this is that it would help to draw the boundaries between the responsibilities of local government and other bodies, such as the LECs, "whose remit is specifically to encourage local economic development".

The Paper then considers the implications of the 4 structures upon local government's industrial development role. It is argued that the larger authorities, set up under the 15 and 24 unit structures, would be more capable of providing a cost effective service, particularly for such activities as trade promotion and sites and premises. They would find it easier to take an objective and strategic view of the industrial needs of their area. Their size would also mean that they would find it easier "to relate to and work alongside the network of Local Enterprise Companies". In contrast the 35 and 51 authority structures, it is claimed, are likely to be more responsive to the needs of small business and

may find it easier to work with the enterprise trusts.

For all 4 structures it is acknowledged that not all authorities may want to be involved in industrial development. In the structures with the greater number of authorities it is also argued that some will lack the resources to become involved in particular activities, for example trade promotion. It is suggested that this might require joint working or the development of agency arrangements. Either option would seem to do little to avoid the confusion that is said to be a "serious weakness" of the present system.

### **The validity of the case for reform**

There may be a strong case for reforming Scottish local government. However the arguments put forward for reform seem weak when industrial development is considered. A particular concern is duplication. Undoubtedly authorities in different tiers in some areas provide similar services. To then argue that this amounts to duplication that needs to be solved by removing one of the tiers is to ignore the size of the market and its many different needs. Districts and regions provide similar services not because they want to compete with one another and cause confusion but because they are responding to the demands of a very large and diverse market.

Arguments for reform based upon the existence of the LECs are equally dubious. Obviously the LECs exist. To then argue that this justifies less local authority involvement in economic development is to again ignore the realities of the Scottish economy. On a range of indicators, in particular business start-ups, Scotland lags behind many other regions in the United Kingdom. The need is for more economic development services to be provided by a diversity of agencies rather than for the LECs to become the sole providers.

The validity of the arguments put forward for reform, when applied to economic development, seem to be based more on a desire for administrative tidiness than upon any realistic appraisal of the needs of the economy or of the clients. Despite this the establishment of a single tier structure seems almost certain to go ahead. What will be the impact upon local government's economic development service?

### **The impact upon local government**

One of the more ominous parts of the Paper is the consideration being given to defining local government's economic development role in statute. As the justification for this is to clarify the responsibilities of the "publicly-funded organisations which are active in this field" it then seems likely that any statute will define local government's economic remit very specifically, taking account of the activities of the LECs. The implication is that any activities that are not so

defined will be "ultra vires" so that local government cannot, legally, be involved in providing them. As the LECs are mainly involved in training and business development local government may be forced to withdraw from these areas, or may only have a role if specifically invited by a LEC. Under the guise of avoiding duplication the danger is that in many areas the LECs will determine the economic development services that are provided and who they are provided to. It has already been argued that the LECs are increasingly determining exactly what the enterprise trusts do (Hayton, forthcoming). Unfortunately the same thing may happen to local government as one of the by-products of reform.

It may be that this interpretation of the introduction of an economic development power is too pessimistic. For example the specific economic development power in England has not proved to be restrictive. However to assume that there will be a similar outcome in Scotland is to forget that the Training and Enterprise Councils (TECs) are not the same as the LECs. The TECs provide a more limited range of services which tend to complement those that local government provides. In Scotland there is more of an apparent overlap between local government's economic development activities and those of the LECs. It will therefore be far easier to justify restrictive legislation on the grounds that duplication and waste are being eliminated. Comparisons with the situation in England must therefore be treated with some caution.

There may also be less money spent on economic development if the reforms go ahead. In 1990/91 McQuaid (1992) estimated that gross revenue and capital spending on economic development by Scottish authorities was £90.6 million. The region and islands councils accounted for 59% of this. Of the regions Strathclyde had a gross expenditure of £10.9 million; 12% of all spending by Scottish authorities. Strathclyde disappears in all of the 4 illustrative local authority structures. Indeed the abolition of Strathclyde seems to be one of the unwritten aims of the reform. Expenditure on economic development is discretionary and seems set to remain so even if local government's role is defined more clearly in statute. Regardless of the state of the national economy in 1996 it seems unlikely that the new authorities will be generously funded, especially given the concerns over the costs of reorganisation. No doubt savings will be looked for and discretionary expenditure such as upon economic development seems to be an ideal target. The threatened introduction of specific legislation outlining local government's economic development role could be a way for The Scottish Office to ensure that such savings are made by restricting local government's economic development activities. Many of Strathclyde's economic development activities could disappear as a result.

That Strathclyde's services seem threatened is beyond doubt. The impact upon the services provided by the

other regions is harder to predict. However all disappear under the 35 and 51 unit structures, whilst only 3 survive under the 24 authority structure. Given that it is unlikely that the unitary authorities will be willing or able to fund the activities presently supported by the regions it seems that even on a reasonably optimistic assumption a large proportion of the regions' current spending on economic development must be under threat. Nor is it likely that the LECs will be allowed to increase their spending to compensate for the loss of the Region's services. Indeed rumours are that Scottish Enterprise's budget will be cut back in 1993-94.

Unitary status may also have an adverse impact upon the many partnerships that local government is involved in. McQuaid (1992) outlines many of these. Here the threat to two, the enterprise trusts and community business support units, will be considered. According to Scottish Business in the Community (SBC) in 1991/92 support, in cash and kind, to the trusts from local government amounted to £1.765 million, almost 16% of the trusts' total income. The regions contributed 45% of this. The largest contribution came from Strathclyde which accounted for 51% of regional spending on the trusts and 23% of all local authority expenditure. SBC estimates that the demise of the regions could deprive the trusts of between 10% and 13% of their income. One consequence will be for the trusts to become even more dependent upon funding from the local enterprise companies than they already are (Hayton, forthcoming), thereby further undermining their independence. The survival of community business support units, certainly in their present form, must also be in doubt under a unitary system. McQuaid (1992) estimates that total local authority spending on the units in 1990/91 was over £1 million. Again Strathclyde Region was one of the main funders, contributing £0.4 million to Community Investment Strathclyde, almost 20% of its annual income. To date most of the LECs have shown a marked reluctance to fund community business. Given this, it is likely that reform will result in a significant decrease in public support. A similarly pessimistic scenario can be developed for many other partnership initiatives, including support for co-operatives and a range of voluntary sector projects targeted at vulnerable groups and areas.

The loss or reduction of the regions' spending on economic development will mean that there will be less leverage. For example, although Strathclyde had a gross expenditure of £10.9 million on economic development in 1991/92, some £2.4 million of this was provided by the European Social Fund (ESF) to support a range of training and employment subsidy schemes. Other regions make use of ESF finance. If the regions' probable demise means that there is less money to spend on local economic development then it will become harder to raise the matching finance necessary to obtain ESF support. The loss of money for local economic development may therefore be even greater than at first sight.

## Conclusion

Regardless of the validity of the case for establishing unitary authorities, by 1996 Scotland is likely to have a unitary local government system. Local economic development is not a major local authority service, accounting for around 8% of current expenditure in 1991/92. It is however of greater significance than this relatively modest percentage implies for 4 reasons:-

- a) it results in direct job creation at a time when Central Government policy seems to be having the reverse effect and when, in many services, local government is being reduced to the role of an enabler rather than that of a direct provider;
- b) much of local government's activity is targeted at vulnerable groups and areas which are often neglected by other organisations;
- c) local economic development is often used to reinforce other local authority initiatives aimed at social and urban regeneration. Without it the success of these will be undermined; and
- d) it is one of the few areas where there is still scope for local government innovation and initiative largely as economic development is not tightly defined by statute and accompanying regulations.

These factors are important in their own right. Underlying them is the political significance of local economic development. Central Government seems to be indifferent to the fate of the unemployed. Local economic development is a way for local politicians to show they care and are attempting to do something and indeed can do something, albeit in a modest way, to tackle the problem. Economic development is also one of the few areas where it is still possible to formulate and implement policies to meet specific locally determined priorities: one of the few areas of local government rather than the local administration of centrally determined policies. For this reason, if for nothing else, the fate of local economic development in a reformed local government system is of far greater significance than its modest share of expenditure would indicate.

At this stage the impact of the reform proposals on economic development must be speculative. However what seems to be indicated is a shift in the balance from local government to the LECs. This will come about not by the LECs expanding their role but by local government's role decreasing. The decrease will be brought about by the unwillingness or the inability of the unitary authorities to fund the services presently provided by the regions and by the use of statute to restrict local government's involvement to those activities which are of little interest to the LECs. As a result the LECs will

come to have a near monopoly in the provision of publicly funded economic development services. The consequences will be less economic development activity, the denial of support to certain groups and activities as the LECs try to target "winners" and the loss of the local authorities' ability to develop innovative projects to fill market gaps. Underlying all of this is the fact that the LECs, although publicly funded, are private companies which are not democratically accountable in anything like the same way that local government is. Reform will therefore mark an acceleration of the trend towards back door privatisation and the increasing centralisation of power. Paradoxically this will be done under the guise of making local government more accountable.

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