

SCOTLAND'S NEW LOCAL AUTHORITIES AND ECONOMIC DEVELOPMENT

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INTRODUCTION

In April 1996, a new local government system was established in Scotland. One of the many new developments is the acquisition by local authorities of a clear, statutory locus in economic development. This article describes the local government system, examines the recent history of economic development in Scotland, examines local government's role in economic development, discusses the importance of the new statutory power, and outlines possible directions for the development of local government's role in the economy.

LOCAL GOVERNMENT IN SCOTLAND

As a consequence of the Wheatley reforms, which were implemented in 1975, Scotland had 65 local authorities of three types. The islands communities of Shetland, Orkney and Western Isles had single tier councils providing all local government services. Mainland Scotland had a two-tier system of 9 Regional and 53 District Councils. Broadly the Regions were responsible for the larger and more costly 'strategic services', such as education, roads and social work, with the Districts' major responsibilities

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being housing and local environmental services. All three types of council developed a positive role in economic development, even though the Wheatley reforms did not give the councils any specific legal power on which to base this activity.

The analysis of local government produced by the Wheatley Commission (UK Government 1969) during its lengthy deliberations in the late 1960s - still regarded by many as the most thorough examination of these issues in Scotland - took a rather narrow view of local economic development, considering only industrial development and tourism. The Report came to no firm conclusion on the key issue which it considered in relation to every local service, namely the optimum size of council for the particular purpose, observing that 'there may be scope for the exercise of industrial development powers at more than one local government level' (ibid, p.68; see also Hayton 1992).

Wheatley's examination of local government considered local services as services, largely ignoring their economic functions and effects. This approach to local government continues even in the 1990s (Fairley 1995a). The narrow approach taken by Wheatley as far as economic development was concerned is scarcely surprising. The major enquiry of the 1960s into the Scottish economy, the Toothill Report (Scottish Council Development and Industry 1961), examined the labour market and the role of education services, but did not consider the role of local authorities in stimulating economic activity. The period of the Wheatley enquiry, the late 1960s, was a period when Scotland enjoyed, along with most of the advanced world, relatively full employment and unprecedented prosperity. These healthy economic conditions were widely expected to continue in Scotland, in Britain and internationally. Commenting on the late 1960s, historian Eric Hobsbawm (1994, p.259) writes, 'by then, indeed, sophisticated observers began to assume that somehow, everything in the economy would go onwards and upwards for ever'.

REGIONAL ECONOMIC DEVELOPMENT

By the late 1960s, commentators were agreed that, while the economy was performing well in its own terms, nevertheless compared with the rest of the UK Scotland was a 'lagging region'. The Highlands and Islands Development Board (HIDB) was set up in 1965. In 1975 the Labour government set up the powerful, interventionist Scottish Development Agency (SDA) (Fairley and

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Lloyd 1995). The HIDB and the SDA were non-departmental public bodies, on which local authorities had some representation. Within the dominant Keynesian paradigm of the period, any economic problems experienced by Scotland were defined in national or regional terms. This together with the overwhelming economic optimism of the period makes it scarcely surprising that Wheatley did not more broadly consider a local authority role or see it as important to give local authorities a firm statutory basis for their economic policies.

The Wheatley Commission invited the young HIDB to consider whether any of its economic development powers should be delegated to local authorities. The Board summarily dismissed the suggestion but, interestingly in the context of contemporary debates, argued for consultations with the Regional tier to ensure that economic development, education and planning were better coordinated (Royal Commission 1968 p12).

Ironically by the time of the implementation of the Wheatley reforms in 1975 much had changed. The 'oil shock' of 1974 created serious economic dislocation in all oil-importing countries. In Britain the conditions for mass unemployment re-emerged for the first time in four decades, and a particular crisis emerged in high levels of school-leaver unemployment. The reappearance of mass unemployment in the late 1970s and early 1980s raised fears amongst politicians and historians that social unrest would result (Hobsbawm 1994, p.96). The scale of labour market difficulties gave considerable impetus to the growing critique of Keynesian policies. However, during the late 1970s and before the final collapse of policy adherence to Keynesianism, unemployment was officially viewed as a short-run phenomenon to be tackled by short, uniform, national programmes. The fledgling Manpower Services Commission (MSC), which had been set up in 1974 as a small, strategic planning agency, was given the role of delivering mass programmes for the unemployed (Anderson and Fairley 1983), a role for which it clearly had not been designed. The national programmes of the highly centralised MSC (on which local authorities were represented) were supported in Scotland partly because they were well-intentioned, but also because there existed no alternatives likely to attract the necessary funding. The inflexibility of these programmes in the light of varying local labour market needs and conditions led over time to a growing disenchantment with the MSC and its activities (Fairley 1989). The weak and ineffective co-ordination between the MSC and the development agencies became one of the strongest arguments for reform in the late 1980s.

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During the first five years of the Wheatley local government system, local authorities were not viewed by central government as key players in regional policy or in the response to rising unemployment and the collapse of the youth labour market. The agencies tasked with responding to these problems were national or regional but outwith the framework of local elective democracy. Local authorities were however members of the tripartite boards (multi-partite in the case of the MSC) of these agencies. In Scotland in the early 1980s the MSC established 9 advisory Area Manpower Boards (AMB) (Fairley 1989, p.36). At the time Parliament was told that these would evolve into full local planning agencies for public labour market policy, though this did not happen, as the Government increasingly favoured business-led initiatives. Local authorities were however represented on the AMBs, even if these were somewhat toothless organisations.

LOCAL AUTHORITY ECONOMIC DEVELOPMENT

Local authorities did produce their own economic development policies and initiatives. In some parts of Scotland, the burgh of Kirkintilloch for example (Fairley 1992a), local authorities could trace their economic development role back to the early decades of the century. In other areas local authorities developed a role in the 1970s and early 1980s in response to industrial restructuring, to growing labour market problems, and as an attempt to compensate for central government's withdrawal from active economic development policy. McCaffer (1995) argues that the 1980s saw the greatest increase in economic development activity.

Initially economic development grew as an adjunct to local government's statutory roles in planning, or alongside the role in developing sites and buildings for industry. Other types of activity developed in partnership or under contract with the regional and national lead agencies, the HIDB, the SDA and the MSC. Indeed some of the key programmes of the lead agencies were made successful by local government involvement - the Community Programme was a key MSC scheme for the adult unemployed for much of the 1980s. In 1985 local authorities provided nearly 71% of scheme places in Scotland, the comparative figures for England and Wales being 43% and 51% respectively (Maxwell 1989, p.150). In the 1980s local authorities increasingly secured funding for economic development and labour market initiatives through the structural funds of the European Union.

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In all of this activity it is difficult to be precise about the extent to which the local authority role was funding-led, led by external agencies, sole local authority initiative, or local authority initiative subsequently supported and part-funded by external agencies. In most of Scottish local government this would not have been regarded as a terribly important issue. More important for Scottish councils would have been the fact that they were able to work in partnership with other agencies to tackle key problems and pursue shared policy objectives. At any rate the roles developed by local authorities within the Wheatley system were significant, if varied in nature and not always fully recognised.

In the early 1990s, the Convention of Scottish Local Authorities (CoSLA) commissioned a study of local authority economic development activities (McQuaid 1992). The study found that in 1991-2 local authorities' combined spend on narrowly-defined economic development activities was some £90m. While this expenditure is considerably less than the budgets available to the contemporary development agencies, Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE), local authorities provide a wide range of other economically important services and tend to work in partnership. As a consequence their role may be more influential than the level of expenditure would suggest. The CoSLA study noted that local authorities also undertake very large spending programmes on other public services which are vital to economic development, ranging from the provision of infrastructure to the state education system. This broader economic role of Councils is discussed below. The £90m spent on economic development supported a wide range of initiatives. Over 4,400 firms received financial support, and 2,650 industrial units (75% of which were suitable for start-ups) were established. The policy priorities of local authorities included: creating employment, making local areas better places in which to live, and helping indigenous companies to grow.

The development of this level of activity by Scotland's local authorities in less than two decades is in some respects quite a remarkable achievement. We have noted that the architects of the local government system neither foresaw nor provided for this role. In a system where local authorities are largely the creatures of Parliament, generally they require and are expected to have a clear statutory basis for their actions, even if within statute there is often some scope for interpretation and discretion. Without clear statutory powers local authorities taking action are potentially at risk of being challenged on the grounds that their actions are ultra vires. In the event of a

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challenge being upheld councils may be surcharged and elected councillors themselves may face surcharge and disqualification.

In Scotland economic development activity was in the main conducted using s.83 of the 1973 Local Government (Scotland) Act, a discretionary power which enabled local authorities to take actions which were to the benefit of their areas or citizens. The level of spend which any council was permitted under this power was cash-limited to the product of a 2p rate. This maximum permitted level was frozen at the level prevailing in 1988-9, when the rating system was replaced by the Community Charge. In practice this spending ceiling does not appear to have presented difficulties; there is no known case of a Scottish council breaching its spending limit. Indeed there is no recorded case of a council being challenged on the legality of its actions or of a council dropping its plans in the face of threatened action.

Local authority economic development in England was conducted under a similar power which was also cash-limited to the product of a 2p rate, s.137 of the 1972 Local Government Act. Wheatley (UK Government 1969 p.153) discussed the similar power available in Scotland under s.339 of the Local Government (Scotland) Act 1947, and came to the conclusion that the cash limit 'virtually empties the provision of real significance'. Wheatley's proposal that local authorities should have 'general competence' was not implemented. In the increasingly statute-driven local government system the 2p rate power was the nearest available mechanism to a power of general competence and it is not surprising that it was used as the basis for much entrepreneurial and creative effort. However, even the limited significance of this power was further curtailed when the cash limit was frozen.

There were differences between Scotland and some parts of England. In the 1980s, some radical, Labour controlled local authorities in England found the nature of this discretionary power, and the spending limit which it made available, to be inadequate.

The Greater London Council (GLC) was the best known of these councils and the most important in terms of the scale of its activities and the extent to which it provided models for other councils. The GLC adopted a strongly confrontational attitude to the Conservative government during the early 1980s. As part of this it adopted and implemented radical economic policies. Whether it feared challenge because of the detail of its policies or because of its high profile stance against the government, the GLC came to view the

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available legal power as inadequate, and this played some part in shaping the organisational and managerial arrangements made to implement policy.

The well-known Greater London Enterprise Board (GLEB) was set up to intervene in London's industry with the principal aims of creating jobs and modernising technology. The GLEB was established as an independent entity, at arms length from the Council. Policy control was maintained by the GLC members of the GLEB board, and by the annual funding agreement between the bodies. The smaller and less-discussed Greater London Training Board (GLTB) was set up as a full committee of the council but proceeded to externalise almost all of its service-delivery role in an early experiment in left-wing 'enabling' (Fairley and Marsh 1992). It seems likely that, with stronger economic development powers, the GLC would have pursued similar policies in a similar political style, but that it would have ensured a more direct role for the council itself.

That these pressures did not arise in Scotland is in itself interesting, particularly as Labour's control over local government increased during the 1980s, and as support in Scotland for the governing Conservatives fell to historically low levels. Keating and Boyle (1986) and Hayton (1994) point out that Scotland did not see the kind of local opposition to central government policy exemplified by the GLC. Hayton does not explain the apparent conservatism of local economic policies in Scotland. Keating and Boyle (1986, p.76) argue that in Scotland left-wing local politics focused on opposing spending cuts in general - Lothian Regional Council was the first in the UK to be rate-capped - and on housing and social policy. In Scotland a narrow, conservative model of economic development which focused on business development emerged, while in parts of England different and considerably broader models appeared. While the more radical councils in England developed local 'alternative strategies', in Scotland, as Keating and Boyle (1986, p.76) note, this approach was largely absent.

A small number of Scottish Councils were influenced to some extent by the GLC. District Councils in Edinburgh and Stirling set up similar projects but these tended to be in areas which were not regarded as 'mainstream' or 'strategic', for example providing support for workers' cooperatives and technology training for women. In the latter case the availability of finance through the European Social Fund may have been more important than any ideological influence from the south bank of the Thames. Two Regional Councils, Lothian and Tayside, set up Enterprise Boards. In both Councils some elected politicians were influenced by the GLC's experiment. However

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the Boards set up in Scotland bore little policy resemblance to their London forebear. The GLEB was set up as a local mechanism for radical industrial intervention. The GLC's principal slogan was 'restructuring for labour', and GLEB was the main instrument. By contrast the Lothian Board's aspirations were doucely respectable and neo-classical, addressing the funding gaps created by a poorly functioning venture capital market.

It is possible that Scottish Labour politics gave rise to a certain conservatism at the same time as developments within the party in parts of England gave rise to very radical agendas. The long tradition and history in Glasgow, the largest city, of a pragmatic, 'can do' approach to local government is well-documented (Keating and Boyle 1986; Keating 1988). Partnership regimes encourage pragmatism and arguably tend to discourage more ideological approaches to policy. It is possible that Scotland's Labour councils eschewed confrontational politics, preferring survival and possible long-term influence to the GLC's brief flowering before its abolition by the Conservative Government in 1986. Equally it is possible that the same inadequacy in the legal power for economic development gave rise to flexibility and creativity in London but produced a climate of 'self-censorship' in Scotland. However, there is little evidence in Scotland in the 1980s of elected councillors or political parties claiming that they were unable to implement their preferred policies. Complaints and criticisms were few during this period and were generally about lack of resources for councils or for the agencies and the MSC, rather than matters of policy.

Perhaps the most likely explanation lies in the strong Scottish tradition of partnership working, and in the strong Scottish desire to maintain this tradition in the face of the free-market policies of the 1980s. Partnership working has many strengths, perhaps foremost of which are: its capacity for producing consensus; the capacity for increasing the impact of initiatives particularly through leverage; and the potential for partnership to produce a degree of policy continuity which is very important to longer-term economic development programmes and projects. However it also has weaknesses. Prominent among these are: the need for the partnership to proceed only in the directions and at the speeds which all partners find acceptable; and the potential for partnership to obscure very unequal power relationships between the partners. Partnership may function as a mechanism for making hegemonic the ideological and policy preferences of the more powerful partner.

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In economic development the SDA, HIDB and MSC tended to be more powerful than their local authority partners, with the possible exceptions of the very large councils such as Strathclyde and Lothian. Even there though the councils' economic development departments may have been overshadowed by the development agencies. As far as the local authorities were concerned the external partners were often the bearers of additional funds in a period when council budgets were being cut back and may have provided a degree of security through joint working which the inadequate s.83 could not provide. In providing funding and the security of partnership, the external agencies also of course brought their own policies into play. The development of the Local Enterprise Companies (LECs) following legislation in 1990 has to some extent changed the nature of local partnerships. Local authorities no longer feel themselves dwarfed by the development agencies. There is anecdotal evidence to suggest that some new Councils feel more powerful than the LECs. However, where the LECs may act as conduits for centrally-determined priorities, the old inequalities may persist even if they are better concealed.

At any rate, by the late 1970s and early 1980s Scottish local authorities had established themselves as actors in economic development. The place of both District and Regional tiers was confirmed in legislation of 1982 (Hayton 1992). Throughout the 1980s councils continued to develop their economic role. By the end of the decade councils' economic development role made them 'core actors' (in the terminology of Bennett and McCoshan (1993 p.211)).

THE NEW CONSERVATISM AND ECONOMIC DEVELOPMENT

In the late 1970s and early 1980s a radical change in central policy took place as the Conservative government of Margaret Thatcher finally abandoned Keynesianism in favour of monetarist and supply side economics. Bennett and McCoshan (*ibid*, p.64) have pointed out that the shift to a supply side approach emphasises the importance of the local focus. This policy shift might well have helped local authorities establish themselves had it not been accompanied by a strong anti-public sector stance which viewed local councils and their allegedly high spending as particular problems. The voluntary sector in England and Wales considered that it should have a key role in the 'new localism' and during the 1980s it developed and piloted in London and North West England a partnership with local authorities to oversee publicly-funded employment and training. This initiative was also

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overlooked by the Government in its rush to involve and empower the private sector.

In 1990 the Conservatives restructured the institutions of regional and labour market policy in reforms which were to an extent based on perceptions of innovations in the USA (Bennett 1994), though these were successfully tailored to match the increasingly divergent and nationalist politics of Scotland, and quickly gained consensus backing (Fairley and Lloyd 1995). The Conservatives' strategic objectives included: involving employers much more in public policy, particularly training policy; deregulating the labour market; integrating economic development and training; and encouraging enterprise at local level. In addition the Conservatives, by this time deeply unpopular in Scotland, wished to head off growing demands for political autonomy by appearing to offer the country distinctive policies. Indeed in this area, as later in local government reform, despite their unpopularity in Scotland, the Conservatives claimed to be giving leadership to a Scottish consensus.

The reforms created some institutional differences between Scotland, Wales and England (Danson et al 1990) and as a result were followed by considerable policy devolution, particularly with respect to training, to the Scottish Office (Fairley and Lloyd 1995). The devolution of control over training policy was announced as part of Prime Minister Major's 'Taking Stock' initiative (UK Government 1993) but may well have been a necessary corollary of the 1990 legislation. The main EU funds for training were 'regionalised' about the same time, again increasing the policy role of the Scottish Office.

As a result of the 1990 Act, the SDA, HIDB and MSC were abolished and replaced by two very powerful non-departmental public bodies, SE and HIE. SE and HIE took on the full range of powers and responsibilities of the former development agencies and the MSC. The 1993-4 budgets available to SE and HIE were £451m and £79m respectively (HIE 1994; SE 1994a). There is a clear irony in a free-market government establishing such powerful quangos. However, this may represent the price of both mobilising the business sector to take on a leading role in a key area of public policy and at the same time placating Scottish demands for distinctive reforms.

The two enterprise agencies were required by their founding legislation of 1990 to decentralise their operations (UK Government 1995, Vol I, p.v). The Scottish Office decided that this decentralisation should be to local

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companies set up under company law and controlled by each area's private sector. Bids were invited from consortia of private firms to set up and run these companies. The companies were to have small executive boards with two thirds of membership drawn from the private sector and no right for local authorities to representation, breaking with the tripartite tradition which characterised the 1970s and most of the 1980s. By 1992 two networks with a combined total of 22 LECs were in operation.

Scotland's local authorities broadly welcomed the new local focus and the attempt to integrate training and economic development. However they also argued unsuccessfully that the new local bodies should be statutory with rights of representation for the local authorities. Local authorities throughout Scotland gave considerable help to the bidding consortia and to the fledgling LECs (Strathclyde Regional Council 1994). By 1992 the local authorities had established good working relationships with the 22 LECs (Fairley 1992b; McQuaid 1992) and the majority of LECs voluntarily invited individuals from local councils to board membership - usually elected councillors but in a few LECs like Fife and Borders, officials. While this represented a clear signal by the LECs in favour of partnership working, it was inevitably and rightly viewed by local authorities as a weaker and less satisfactory arrangement than corporate representation (CoSLA 1994). By 1994 a consultative mechanism had been established between CoSLA and SE, but no such mechanism had been established between CoSLA and HIE (CoSLA 1994). There is a paradox here in that the 1990 Act clearly requires HIE (but not SE) to consult on its plans with local authorities and other agencies which have an interest in local economic development. However, such consultations could be held with the appropriate local authorities and need not involve the Convention. In 1995 the House of Commons Scottish Affairs Committee recommended that SE and HIE pay more attention to consultative processes with local authorities (UK Government 1995, Vol I). In its reply to the Report the Scottish Office (1996, p.7) stressed the importance of the LECs 'developing close partnerships with the new unitary authorities', pointing out that the Government 'will regulate to ensure consultation if that should prove necessary.'

In their first years of operation the LECs had to establish themselves as efficient organisations with proper operating systems while meeting demanding performance targets which were increasingly based on measured outputs. The LECs needed quickly to generate new activities on which fairly generous budgets could be expended. In many parts of Scotland local authorities brought forward projects which they could not themselves afford

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to fund. As a result councils saw some of their plans brought to fruition and LECs met their targets, but in doing so the LECs generally claimed 'ownership' of the projects.

The nature of the relationship between local authorities and LECs varied. In much of Scotland where there were long traditions of public-private partnerships, for example Glasgow and North East Scotland, relations were good. However in other areas LECs tried to act alone and to ignore or marginalise councils. Strathclyde Regional Council (1994, p.216) contrasted the good council-LEC relationships in Glasgow and Lanarkshire, with the situation in Ayrshire where the LEC, Enterprise Ayrshire, conducted 'no consultation over its "Vision 2000", despite the existence of the Ayrshire Economic Forum to perform such a role, with the result that their "Ayrshire City" concept almost resulted in a total breakdown in communications between the local authorities and the LEC.' In some cases difficulties arose because of the LECs' lack of understanding of proper procedures. In Aberdeen, Grampian Enterprise had to seek retrospective planning permission for some of its city centre activities (CADC 1992-3). In this relatively new economic development system local authorities fear that, as Keating and Boyle (1986, p.46) put it in their discussion of Urban Development Corporations in England, 'when the "signs come down"', it is the councils which will be held locally accountable for developments and for any remaining problems. In general while reasonably good working relationships developed, local authorities felt that their economic development role was undervalued and often unrecognised by the LECs (CoSLA 1994; Strathclyde Regional Council 1994).

There are probably a number of factors behind this local authority view. In Scotland (as in much of Britain) local authorities had come to view all actions of central government with suspicion, and the LECs were seen as the favoured agents of the Scottish Office. The LECs, dependent on contracts with SE or HIE (or both in the case of one LEC - Moray, Badenoch and Strathspey Enterprise), had quickly to satisfy the client agencies, establish a record of achievement, and establish a public profile as successful lead agencies. This undoubtedly encouraged LECs to claim 'ownership' of projects which were regarded as partnerships by the local authorities, and to develop fairly high profile publicity and marketing. In both areas LEC activities were criticised by councils. In their early years the LECs seemed to local authorities to be more intent on quickly establishing themselves than on strategic development, and councils often believed that LECs would always tend to choose the projects which had a quick pay back in terms of outputs or

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public profile. Given that in the early years LECs had to ensure that all of their budgets were spent, many in local authorities considered that LECs were likely to favour projects which required a quick and high expenditure over others which might have taken longer to develop and mature. The LECs had also been set up to be executive and unitary (Scottish Enterprise 1994b, p.151), rather than representative and consensual, and to be mechanisms for articulating and implementing the policy preferences of the business community. A few LECs - and Enterprise Ayrshire may have been an example - perhaps were convinced by the 'enterprise' rhetoric which surrounded their establishment, and may have seen local authorities as part of the problem and therefore to be circumvented. More generally it is possible that the LECs were to some extent confused about the local authorities' position. On the one hand LECs would be grateful for any early support received and would come to develop an understanding of the broad range of councils' statutory responsibilities and functions. In most LECs a local government councillor would be invited to Board membership. On the other hand the LECs were repeatedly told by Government that they were the 'lead bodies' for local economic development and publicly-funded training, and from the LECs' perspective it may have appeared that local authorities were clearly minor players in the sense that, whatever the financial scale of their activities, councils did not have any *statutory basis* for their role. Where local authorities did have a clear role, for example in planning or in estates provision, the LECs would address that, though they would do so project by project and in the negotiating style of the private sector, rather than at the level of strategy and proceeding by consensus which would have been much preferred by the local authorities.

LOCAL GOVERNMENT REFORM

Following their victory at the 1992 general election, the Conservatives set about implementing their pledge to reform Scotland's local government system. The government consulted on their proposal to establish a one tier system of unitary local councils and the then Secretary of State, Ian Lang, laid claim to a degree of consensus support for Conservative plans (Lang 1994). In fact the consultations were widely regarded as flawed (Alexander and Orr 1994), there was evidence that the public viewed the Government's methods with some suspicion (Boyne, Jordan and McVicar 1995, p.16), and many of the details of the reform were contested and controversial (Fairley 1995b).

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In 1994 the Government legislated to put in place a system of 32 unitary councils to replace the existing Wheatley system. The new councils finally replaced the old in April 1996.

Alongside the institutional and structural reforms were a number of more detailed changes. These included the provision of a new statutory power for local authorities to undertake economic development activities. While s.171 of the 1994 Act remains discretionary, it undoubtedly provides a stronger basis than was previously available. It is wide-ranging in its scope (Hayton 1994) and permits local authorities a very wide range of activities without the cash limit ceiling of the earlier arrangements. It removes the potential difficulties of the '2p rate' power, though, as we have seen, in practice these did not arise in Scotland. Local authorities will be required by the 1994 Act to provide information to the Scottish Office and to consult on their economic development plans.

In some quarters the new power was unexpected or regarded with suspicion. Hayton (1992) considered the new power as 'one of the more ominous parts' of the Government's reform proposals. There were fears in some local authorities that reform might be a device for limiting their role, or that it might even be used to strip them of their economic role and pass the entire responsibility to the LECs. Indeed some LECs argued for this to happen in their responses to Scottish Office consultations (Strathclyde Regional Council 1994, p.215).

Now that the nature of the reforms to local government are clearer and better understood, these fears seem to have less foundation. The provision of the new power is viewed not as a hostile or cynical act by Government but perhaps as an 'administrative tidiness' (Hayton 1994), bringing Scotland into line with England where legislation had provided a similar power in 1989. The new power may also represent two other factors. First, the Scottish Office may have come to accept the value of the local authority role which developed in the two decades after Wheatley and to have felt that a clear legislative base would help secure the continuation of this activity. Second, the absence of such a power would have been a clear flaw in the new unitary councils and would have undermined government arguments that, as a result of their new unitary nature, the all-purpose councils would be stronger than their predecessors.

Arguably the new power could over time considerably change the relationship between councils and LECs, particularly in the context of a

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change of government or the establishment of a Scottish Parliament. The lack of such a power may have been one factor which helped to shape the common LEC view that local authorities are important but minor players in economic development. However, the LECs themselves lack a strong statutory basis. While they are formed under Company Law, they are in practice entirely dependent on securing contracts with SE or HIE. The 1990 legislation requires SE and HIE to decentralise but it also clearly recognises that decentralisation may be to local partnerships or to companies. The Scottish Office has so far chosen the latter route with the LECs as the preferred administrative devices. The economic development aspects of local government reform may open up other possibilities and could be used to develop different models in different parts of Scotland.

NEW DIRECTIONS FOR LOCAL AUTHORITY ECONOMIC DEVELOPMENT?

It seems likely that local authorities will continue to develop their economic role. The factors which led to the growth in that role seen in the 1970s and 1980s have not gone away. In addition the shift to a supply side focus is in itself likely to lead to continued activity through initiatives at local level. The Scottish Office seems unlikely to use the new power to restrict local authorities, except by requiring more planning, consultations on the plan, and the provision of information, requirements which many local authorities will welcome. The apparent lack of any tradition of GLC-style radicalism or aspirations suggests that there is little likelihood of policy restrictions being imposed. In England the similar power introduced in 1989 has not so far been used to restrict local authorities.

How the local authority role develops will depend on a number of factors including the professionalism of economic development specialists, the vision and leadership of the new councils, the ability of the new councils to develop the potential strengths which arise from unitary status, the nature of partnership with other agencies and perhaps between local authorities, and the developing attitude of the Scottish Office towards the enterprise agencies and the LECs, particularly perhaps in the context of a Scottish Parliament. The LECs themselves though powerful are young organisations and as they mature attitudes to local authorities may change.

It seems unlikely that the nature of the policy approach and the type of initiative favoured by economic development departments and units in local

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authorities will rapidly change. However, the bringing together of the very different organisational 'cultures' of the Districts and the Regions by local government reform may produce some change. We may expect continuing development in so far as local authority policies and priorities are shaped by the availability of external funds, and the policies of these organisations change. The requirement to consult on plans may encourage some local authorities to think more strategically and move away from a fragmented multi-project approach.

The new unitary status may encourage broader strategies which seek to exploit the links and overlaps between previously separate services. Local authorities are being encouraged to think in this way (CoSLA 1995; McCaffer 1995). Perhaps the single most important opportunity lies in the possibility of better linking economic development and education. It is commonly accepted that economic development must focus more on education and training if peripheral economies such as Scotland's are to compete in the modern 'knowledge economy'. The availability of qualified human capital is increasingly viewed as a key factor in development whether indigenous or through inward investment. The government has established a framework of education and training targets, which are higher for Scotland than for England and Wales, largely because of higher levels of school leaver attainment. In Scotland the targets are promoted by the Advisory Scottish Council for Education and Training Targets (ASCETT). In future we may expect local education plans and school development plans more explicitly to address these labour market issues (AMA 1995, p.31).

Local authorities, newly empowered in economic development, but with a long and very powerful stake in the education system (Fairley 1995c), are ideally placed to attempt to co-ordinate and integrate these hitherto largely separate sets of activity. Although further education colleges were incorporated and removed from local authority control by legislation in 1992, relations between councils, schools and colleges are strong and recent research shows them to be co-operative and collaborative, rather than competitive (Finlay 1995). The 'Higher Still' reforms to the Scottish school leaving certificate will give greater recognition and indeed some priority to vocational education and training, and may push education departments towards a more practical concern with the labour market. Local authorities could emerge as larger, more strategic and more effective players than the LECs, though this would require radical and rapid change in the ways in which councils view and tackle their roles in education and the economy. If the local authority role in the economy has its origins in planning and estates

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provision, perhaps its future lies more in education, training and a stronger role in the local labour market.

Local authorities could only develop in these directions in the context of a better partnership with central government than the often difficult and sometimes antagonistic relationship of the last fifteen years. The continuation of a poor relationship with central government and the continuation of current government policies for education may lead in a very different direction. The Conservative government wishes schools to 'opt out' of local authority control. This policy has so far failed in England where only 1,000 schools (out of more than 26,000) have opted out and has been an embarrassing flop in Scotland where there are only 3 publicly funded schools outside the local government sector. The government has recently announced that it is considering new ways to breathe life into this policy. One way which has been suggested by an influential observer (Holland 1995) would be to create unified local or regional structures for employer control of education and training. Such an approach was advocated by the influential National Commission on Education (NCE 1993, pp.350-355). In England this would require abolition of the Training and Enterprise Councils which are similar to LECs but narrower in that they are primarily concerned with training. This very radical suggestion would have several potential benefits for the Conservatives in so far as it could unify education and training, greatly diminish the role of local authorities, increase the role of the private sector, and provide a mechanism for bringing private finance more centrally into education and training.

In Scotland similar proposals would find little support, although lack of popular support has not deterred the Conservative government from persisting with its policy to encourage schools to opt out. There is consensus support for the closer integration of education and training. In the late 1980s, a number of central initiatives were implemented to encourage business involvement in education, including Compacts and Education Business Partnerships, based on but going further than the Boston Compact initiative (Bennett and McCoshan 1993, pp.150-1). However, these initiatives are small in scale and marginal to the current large-scale role played by local authorities in education. If local authorities are able to respond to the new agenda and offer local leadership in bringing together education and training, then there is little doubt that this is the direction which would be favoured by majority opinion in Scotland.

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The larger Wheatley Councils such as Strathclyde, Lothian and Grampian Regions have pursued vigorous economic and social strategies. The latter have involved the coordinated targeting of resources on disadvantaged areas, such as the peripheral housing estates, and support for not-for-profit community-based economic projects. Social Strategies are an acknowledged area of innovation by Scottish Councils within the UK and to some extent within Europe. The new economic development power also gives Councils a stronger basis for developing the 'social economy', and for coordinating all Council services to help the most disadvantaged. This capability is likely to be of interest and importance to any national policy seeking quick job creation or new initiatives to help the long term unemployed (Finn 1995).

THE ECONOMIC IMPACT OF LOCAL GOVERNMENT

The reform presents an opportunity to local authorities more broadly to consider their economic impact. Local government in Scotland spends annually some £7bn and employs over 300,000 people. Councils are generally the largest economic actors in their areas. Yet rarely is this role strategically considered. The two tier Wheatley system may have discouraged this and the 1988 Local Government Act certainly presents major barriers to this type of strategy development.

In the 1980s a number of councils led by the GLC and including the cities of Glasgow and Edinburgh developed US-style 'contract compliance' policies. The broad thrust of these was to use the power of contracted relationships to improve employment and environmental practices in the private sector. The 1988 Act effectively outlawed nearly all aspects of these policies as 'anti-competitive'. The Act also imposed a requirement which is unique in Europe, namely that Councils expose a wide range of services to compulsory competitive tendering (CCT). Councils have been very successful at winning these contracts but part of the effect of the managerial revolution required by CCT has been to encourage a short-term, contract-driven approach within which economy and cost-efficiency are prioritised. CCT discourages longer term planning and consideration of service effectiveness. It also fragments services, encouraging each to be regarded as a discrete business and preventing the kind of synergies referred to above. Major changes to the 1988 Act would be required to enable councils to think and act strategically in their entire economic role (Fairley 1995a).

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An unfortunate consequence of the 1988 Act was that it produced a generally defensive reaction from Scottish local authorities. Services were generally seen as being at risk of private sector takeover through enforced competitive tendering procedures. Councils generally set out to comply with the 1988 Act in ways which would maximise direct employment. A radical revision of the Act could make it lawful for local authorities to consider aspects of their contracting in terms of local economic development. It could also encourage local authorities to be more pragmatic, adopting the policy with greatest local economic impact. Critics would argue that any such relaxation would risk a return to the poor management which characterised many authorities before 1988. However, the 1994 Act requires the new councils to secure value for money (VFM) in service delivery. It may prove possible to allow councils greater freedom of action by relaxing the 1988 Act while requiring that their actions must be justifiable in terms of VFM analysis. A relaxation of the 1988 Act would allow councils systematically to examine their impact on local communities, and particularly the most deprived areas. In the event of a different kind of central supply side economic policy, it could also allow local authorities to play key roles in tackling the problems of low pay and poverty, and undertaking low cost job creation.

However, local authorities could think more about the economic impact of their services even within the current restrictive legislative framework. In criticism of the LECs, Central Regional Council (1994) argued that their existence tended to deepen the split between the economic and the social, and that in the LECs' operations there was 'a tendency for the distributional aspects of development to be subsidiary to the creation and expansion of economic activity'. However, this criticism could also justifiably be made of local authorities. Most council professions and departments simply do not see it as their responsibility to consider economic issues, and economic development officers are generally too few in number and too isolated to play a council-wide role.

The development of economic strategy at this level represents both a challenge and an opportunity to the new councils. If they are able to take the opportunity, councils will help to strengthen the already strong case against the 1988 legislation and develop a firm basis for being seen as the lead agencies in local economies, a status which they have long held for local public services and for community development.

LOCAL CO-ORDINATION - TOWARDS A NEW ROLE ?

Finally, the agencies involved in economic development are many and fragmented in Scotland. On the training side there are 22 LECs and well over 100 Industry Training Organisations (ITOs) and the two networks find themselves inadequately resourced for certain types of co-operation (Fairley 1995d). Through the mechanisms of the LECs and the voluntary ITOs the role of the private sector in training has been increased. The voluntary sector is extremely important as training provider, particularly within EU programmes. There are some 43 incorporated further education colleges, and as we have seen the schools are developing a new interest in vocational education and training. Business development services are also fragmented, with LECs, local authorities, enterprise trusts, chambers of commerce and the private sector all playing roles. There is a need for better co-ordination and some joint planning at local level. Bennett and McCoshan (1993 p.203) see local 'horizontal integration' of policy programmes as the key to achieving strategic economic development goals. The new local authorities with the strength of unitary status, the new economic development power and the legitimacy which comes from democratic election seem ideally placed to perform the role of encouraging and supporting horizontal integration and collaboration at local level. Indeed it is difficult to identify potential competitors for this necessary role.

CONCLUSIONS

In the new system after 1996 local councils will have a clearer statutory locus in the economic development system. They also have an opportunity to reassess their economic development roles. Unitary status may encourage them to think beyond conventional departmental boundaries and service definitions and, for example, bring economic development and education closer together. There is an opportunity once again to consider the economic impact of the entire council as an employer, a purchaser, a contractor, a provider of infrastructure and a development partner and seek to maximise the permissible local benefits of all these roles. In addition there is a need to look beyond the council and to approach the better coordination of the plethora of agencies active in economic development and vocational education and training. Local authorities with their democratic legitimacy are best placed for this coordinating role.

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There are of course no guarantees that opportunities will be taken, and these particular opportunities present difficulties for local councils. In order to take advantage of them the new councils will need to change in two particular respects. First, they will need to reconsider the nature of economic development moving away from the traditional roots in the planning and estates functions and beyond the very narrow concern with business development. And second, they will need to become more corporate and more strategic than their predecessors and be willing to put a new, broader concept of economic development at the centre of their local strategies.

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