Economic Perspective 1

The Future Role of Scottish Local Government in Economic Development

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Since 1979 local authorities have been subjected to two main pressures from central government: increasing control over the range and type of services that can be provided; and greater emphasis on the private sector's role. So far, beyond being affected by the general financial constraints that local government has been placed under, the economic development services that many local authorities provide have escaped largely unscathed. This situation seems now likely to change radically as a result of three measures. These are:-

a) the Local Government and Housing Bill;

b) Scottish Enterprise; and

c) changes to the structure of local government.

When considered in isolation these measures contain much that is attractive and which could produce a more effective economic development service; for example, a specific power to carry out economic development and the creation of an integrated training and enterprise development service. However the argument that is put forward in this paper is that these measures have to be seen as complementary. They are part of an overall strategy intended to result in a major reduction in local government's local economic development activities. These will be progressively placed under greater central control and privatised.

It may be thought that the interpretations that are placed on these three measures are too pessimistic and machiavellian. In this case one must ask oneself why should local government's economic development activities be immune from the pressures that have affected other local government services? It is hard to think of a convincing answer. To see what could happen each of the three measures will be considered.

The Local Government and Housing Bill

The provisions of the Bill that relate to economic development originated in the Widdicombe Report (Secretary of State for the Environment, 1986). This suggested that consideration be given to providing a specific economic development power. The Bill contains such a power, although as yet it is applicable only to England and Wales. Once it becomes operational this will mean that Section 137 of the 1972 Local Government Act can no longer be used for economic development purposes. It is this Section (the twopenny rate provision) that has been the legal basis for the majority of the local government's economic development activities that have not been concerned with land and property.

The granting of this power has been described (Audit Commission, 1989) as providing "a new legitimacy to local authority economic development activities". Whilst in the strict legal sense this is true, the reality is that in recent years it has only been central government that has queried the local authority role in this field. It is perhaps because of this that the new power will be restricted by Parliamentary Regulations.

The first signs had been that the restrictions would stop a range of local authority activity; for example the provision of employment subsidies and involvement in a variety of manufacturing and trading activities (Hayton, 1989). However, the latest Consultation Paper indicates that the restrictions will be relatively innocuous (Department of the Environment, 1989). The main proposals are that:-

a) there will be geographical restrictions upon the authorities allowed to offer grants and loans to private sector companies. Only authorities with an above average unemployment rate or eligible for such central government priority as regional aid will be able to provide such support. However, other authorities will still be able to provide loans and grants as long as they do not in total exceed £10,000 to any one company in any one financial year. The impact of this measure is therefore likely to be felt by only a handful of authorities;

b) restrictions will be placed on certain "fields of activity", such as manufacturing and trading. However these are again relatively minor. For example manufacturing and trading can still be carried out if it is ancillary to training. This means that Information Technology Centres will be allowed to trade. At one time this had been thought to be unlikely. The restrictions will also not apply if activities are not carried out in pursuit of economic development objectives. This means that, for example, window frame manufacture will still be allowed as long as the justification for doing it is the provision of an efficient housing service. There is however one restriction, upon the carrying out of investment business, which could have an impact. This will be returned to later; and

c) restrictions on "types of activity". These include providing soft loans and wages subsidies. However, there are major exemptions on the wages subsidy restrictions. These will still allow subsidies to be given to encourage employers to recruit the unemployed and trainees and to fund schemes that are being supported by other bodies such as the European Commission. The impact of this particular restriction is therefore likely to be very minor.

The restrictions imposed under the Bill therefore look likely to be far less severe than originally envisaged and will have a limited impact upon the majority of authorities. Given this, why has the government bothered to impose them?

The answer is to be found in Part V of the Bill which makes any company owned or controlled by a local authority subject to the same rules as the parent authority. As authorities will not be allowed to be involved in "investment business" as part of the restrictions on the general economic development power ((b) above) then neither will any companies that they own or control. Other parts of the Bill will result in any capital expenditure by such companies reducing the expenditure that their parent authorities are allowed to make. Thus expenditure upon economic development will reduce the money that is available to spend on other things that may be more attractive to local politicians, such as housing and education.

The main category of owned or controlled company that will be affected by these measures is the enterprise boards. Given this, it would seem as if the intention behind the Bill, in the short term, is to try to kill the enterprise boards once and for all. It is hard to see any justification for this other than political malice.

If this interprestation of the Bill's impact is accurate, then why should the majority of local authorities which are not involved in "investment business", and particularly those in Scotland, be worried? The answer to this question lies in the fact that the Bill is a Trojan Horse. At any time in the future the Secretary of State can introduce new restrictions upon the type, level and scale of local authority economic development activity. This time around the enterprise boards are being targeted. Who can tell what future targets will be?

It also seems likely that eventually the Bill's economic development provisions will apply to Scotland. Indeed in June it was stated in Parliament that more time was to be allowed for the development of separate proposals for Scotland. How different these will be from those outlined in the present Consultation Paper remains to be seen. However, given that there are two enterprise boards in Scotland, perhaps the single local authority economic initiative that has provoked more central government hostility than any other, then one would expect the restrictions initially at least to mirror those that are being proposed south of the border.

Given this no one concerned with the provision of an effective local government economic development should welcome the new specific power contained in the Bill. It is likely to result in the imposition of tight controls upon all local authority economic development activity. In parallel with this the flexibility of Section 137 (and in Scotland Section 83 of the 1973 Scottish Local Government Act), which has allowed local government to respond imaginatively to a range of economic problems, will be lost. The Bill also has to be considered alongside Scottish Enterprise, which can be seen as a complementary measure.

Scottish Enterprise

Under Scottish Enterprise twelve Local Enterprise Companies (LECs) are to be set up in Lowland Scotland and possibly eight in the Highlands and Islands (Industry Department for Scotland, 1989). These are to be "led by top executives of locally based businesses". Although publicly funded they will be independent companies with boards whose members will largely come from the private sector.

The LECs will have a wider remit than the Training and Enterprise Councils (TECs) that are being set up in England and Wales. This is because they will take over not only much of the responsibility for running enterprise development and training programmes from the Training Agency, but also a range of services presently provided by the Scottish Development Agency (SDA). These will include environmental improvement, pump-priming grant aid for property development and a range of business development services. They will therefore have the potential to create a fully co-ordinated economic development service covering both the software and hardware needs of the private sector.

Their budgets, in Lowland Scotland, will range from £5 to £70 million. Even the smallest LEC will therefore have a budget that will be greater than the sums allocated to economic development by the majority of Scottish authorities. To date bids for development funding to set up LECs have been received from four consortia: in Dumfries and Galloway, Grampian, Lothian and Renfrew.

In the short term it is likely that the LECs will have a limited impact upon local government. The bulk of their budgets will be committed to existing programmes such as Employment Training and the Youth Training Scheme. The money presently spent by the SDA will therefore be the short term focus of attention. More of this may be uncommitted thereby allowing the LEC's boards to begin to develop programmes to meet perceived local needs, something that is likely to be essential if private sector involvement is to be maintained. However, if the pressure that the TECs are presently exerting, to be allowed to use the funds allocated for schemes such as Employment Training for different forms of adult training, is successful then one would assume that similar discretion would be given to the LECs. If this does happen then they are likely to begin to have a major impact upon local government's economic development activities.

What central government will be effectively creating in Scotland are enterprise boards in everything but name. Indeed if one wants to know what a successful LEC will look like then one only needs to look at Lancashire Enterprises Limited (LEL) or the West Midlands Enterprise Board (WMEB) rather than at the American Private Industry Councils (PICs), the private sector led agencies set up to train disadvantaged young people and adults. Like most of the English boards, both LEL and WMEB have developed from their original investment roles. They are involved in a diverse range of training and general economic development activities and, in the case of LEL, in a number of area-based renewal projects. Indeed the description of the LECs in the original White Paper (Industry Department for Scotland, 1988) is a very good description of LEL. This is even more so now that LEL's owners, Lancashire County Council, are in the process of floating off the company and retaining only a 19.9% equity stake. This is being done to avoid the restrictions on company ownership that will be imposed by the Local Government and Housing Bill.

With this in mind there seems a certain irony about the claims that have been made about the influence of the PICs on the design of the TECs (Stratton, 1989) and clearly also upon the LECs. What seems to have happened is that government has gone several thousand miles to reinvent the wheel, although in this case it is now a politically respectable wheel, driven by the private rather than the public sector.

The emergence of LECs involved in such a range of schemes, and with relatively generous funding, will therefore pose a major threat to local government having an autonomous economic development role. Indeed if individual LECs do become as successful as LEL then it may be that even local authorities that are sympathetic to involvement in economic development will begin to question the need for them to duplicate this function. This is especially likely if other service budgets remain under financial pressure. Thus even in isolation Scottish Enterprise may have a major impact upon local government's economic development role. This takes no account of the likely effect of the Local Government Bill or the reform of local government.

The Reform of Local Government

A reformed system of local government seems a certainty, irrespective of what happens at the next general election. To many people the boundaries of the LECs contained in the Scottish Enterprise prospectus (Industry Department for Scotland, 1989) are felt to be the Conservatives' preferred boundaries for a reformed system of local government. Under a Labour government similar reforms are likely as it is hard to see both Strathclyde Region and a Scottish Assembly co-existing. Indeed the Constitutional Convention (Scottish Constitutional Convention, 1989) has recently claimed that "a consensus is emerging which favours the reduction of the present two-tier structure of districts and regions to one tier".

The main two political parties are thus likely to be in favour of a unitary system. Irrespective of the exact boundaries of such a system it seems likely that the main authorities affected will be Highland and Strathclyde Regions. Under the Scottish Enterprise proposals they largely disappear as the pre-1975 county councils, albeit with modified boundaries in the case of Highland, reemerge. Elsewhere it seems likely that the existing regional structures could form the basis for the new unitary system with few modifications.

Again when considered in isolation these structural changes are likely to be beneficial to local economic development. Local government would be in a position to offer a single unified service, with better co-ordination and integration of activities. However, again this is considering these changes in isolation from those that could be brought about by the Local Government and Housing Bill and Scottish Enterprise. The joint impact of these three changes will now be considered.

The Future of Local Economic Development

One can envisage two broad scenarios. In the first a Conservative Government is returned to power in the early 1990s. It proceeds to reform local government, using the same boundaries as are being introduced for the LECs. In parallel with this the Local Government and Housing Act is introduced to Scotland and the Secretary of State proceeds to impose major restrictions upon local authority economic development activity. This will limit it to the "small scale pump-priming initiatives in the community, social and advice fields" that were predicted in an earlier White Paper (Secretary of State for the Environment, 1988). Effectively this will mean that local government's economic development role will be privatised and taken over by the LECs. Local government will be reduced to that of an enabler rather than an initiator. This process will be helped by such measures as the Self Governing Schools (Scotland) Bill. This will result in at least half of the members of the further education college councils being employers' nominees. It will therefore be far simpler to ensure that the training that the LECs identify as being in demand is supplied. This has already resulted in claims being made by bodies such as the Forum on Scottish Education that the colleges will become purely training institutions.

The justification for these changes is likely to be the promotion of an efficient and effective economic development service, a true "one door" approach with no overlap or competition. It will be administratively attractive and can be sold as appealing to the private sector. It is also a change that is unlikely to upset anyone other than the professionals and politicians directly involved. Claims that local economic development is under attack are hardly likely to mobilise widespread community support, unlike, say, threats to housing or the health service. As such an attack on local government's economic development role is likely to be very appealing to a Conservative administration that is a minority party in Scotland. It can show its supporters that it is doing something without causing much antagonism.

What will therefore happen is that local economic development will become far more centralised, with the Scottish Office dictating what local government is to be allowed to do. At the same time those activities that local government will be forced to withdraw from will be given to the LECs and effectively privatised. The outcome will be the setting up of what are, in all but name, enterprise boards throughout Scotland, albeit ones that have private sector leadership and are therefore politically acceptable. Given this there is likely to be very little independent role left for local government in local economic development by the mid 1990s.

The other scenario is the return of a Labour Government at a time when the LECs will have just started to establish themselves. Whilst local government is likely to be reformed it is doubtful if the new boundaries will be very different from those presently outlined for the LECs. It is also doubtful if a Labour Government would abolish the LECs, given the chaos that would ensue. What is likely to happen is that their board membership will be revised, so that two thirds of the members will come from the public rather than the private sector. The LECs will therefore become democratically accountable and will operate as wholly-owned economic development companies. Such a move is likely to be welcomed by local government. The use of an independent company to carry out economic development is one that has become increasingly attractive to a number of local authorities, especially Labour controlled ones, in recent years. Several such companies already exist in Scotland. Providing an economic development service through them rather than a mainstream service department is said to bring a number of advantages, including the ability to respond flexibly and rapidly to the private sector (Planning Exchange, 1987). The LECs will therefore be seen as a way of providing a more effective economic development service.

If this scenario is accurate then, whilst the Local Government and Housing Bill may be abandoned, it is unlikely that the outcome for local government will be much different to that that would result under a Conservative administration. The result will be the end of local economic development as an independent local authority service. It will be carried out in the future through wholly-owned or "arm's length" companies.

Conclusions

Either scenario has thus a very similar outcome. In both it is unlikely that local economic development will remain as a separate local authority service. Under the Conservatives it will be privatised. Under Labour it will be carried out by subsidiary companies.

Neither means that there will be a worse local economic development service provided. What will change will be the delivery of that service and possibly the way that it is targeted. The greatest impact will be upon those staff who are presently responsible for delivering this service from within local government.

This may seem a very pessimistic view of the situation. However, change in this area is not only likely but inevitable. If local government is to "play an important leading and co-ordinating role" (Audit Commission, 1989) in economic development then it needs to recognise the impact that developments such as Scottish Enterprise are likely to have. Thought then needs to be given as to where local government is to fit into the economic development jigsaw in the 1990s. At the moment this does not seem to be happening. The initiative is being taken by the centre and many of those in local government do not seem to be aware of what is likely to happen. The danger is that by the time local government realises that economic development is under serious attack it will be too late. The pieces of the jigsaw will all be in place, and there will be one piece left over - local government's economic development departments.

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