



Centre for Local  
Economic Strategies

# local work



## CLES with Localis Discussion Paper:

### *The future role of local government in strengthening local economies*

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#### **Introduction**

On 4<sup>th</sup> February 2009, CLES and Localis hosted a joint event with the aim of discussing what the role of local authorities and their partners should be in driving local economies and achieving resilient local areas and economies. Amongst the attendees were representatives from local authorities in the North West as well as non-governmental organisations. As the economic downturn has shown, it is vitally important for local economies to be able to respond to new challenges by acting innovatively and being flexible in the way that economic development is done in order to create and nurture resilient economies.

Resilient economies are those that are able to identify changes and potential shocks (internally and externally), react quickly and ensure that local business, incomes and jobs are retained during periods of adversity. They deliver positive and equitable economic outcomes that can be translated into social benefits, and contain functional markets and flows that operate within environmental limits and deliver a desirable, sustainable direction of travel. To achieve this, resilient economies are characterised by strong commercial, public and social economies interacting within them.

This paper outlines the key issues raised in the debate which focused around the following themes: governance issues; the assumptions upon which economic strategies are based; and the potential barriers to local authorities engendering effective economic development. Whilst CLES and Localis led the debate, the arguments raised in this paper reflect the attendees' contributions and do not necessarily reflect the views of either organisation. The aim of this edition of Local Work is to relay the debate that emerged from the event and 'open the door' to a discussion on how local authorities in the future can shape the economic destiny of their local areas.

## **Are Regional Development Agencies fit for purpose?**

The nature and purpose of Regional Development Agencies has been a hotly contested issue, and a topic of contention between the two major political parties. However, the recent Conservative decentralisation green paper noted that, at least in the short term, there was actually a role for RDAs in the coordination and support of businesses. Other organisations have argued that there is a need for RDAs in some parts of the country and not others. Yet others have argued for the complete abolition of RDAs. It would appear as though achieving a consensus on the issue is impossible.

Yet the group all agreed that there are problems with RDAs, and questions were raised about the extent to which they were fit for purpose. They also agreed that they severely lack democratic accountability; and that they represent administrative but not fiscal decentralisation. They are perceived as expensive, bureaucratic and have 'emasculated' local government. Moreover, questions were raised as to whether the boundaries under which RDAs operate align with economic geographies. These critiques could lead one to the conclusion that RDAs should be dismantled and powers simply returned back to local authorities.

However, there was a concern that if RDAs were simply abolished, there would be a real danger that 'the baby' could be thrown out of the 'bathwater'. It was suggested that although they do not represent the needs of local areas, they do in some sense provide some form of regional stability – in planning and in economic development for example, and that some businesses have welcomed their presence. The difficulty for the future lies in ensuring that local authorities have a platform upon which stable regional growth and planning can be built.

Successive governments have imperialised those functions which were once the preserve of local authorities. Their need for control has led to the rapid rise of regional organisations, whose aim it is to ensure that the centre has a say over local affairs. However, over the course of the discussion it was concluded that partnerships and flexible collaborations between local authorities are the best way of achieving the desired form of bottom-up regionalism. The question is, will local government be able to achieve it, is there the political will, and is there a suitable framework to allow it to happen?

### **Summary**

From the debate, it is clear that there are doubts about the effectiveness of RDAs in their current form. However, there is always going to be a need for some form of organisation at some regional level in order to achieve those functions which are regional in nature and / or do not fit neatly into Council or sub-regional borders. However, the presumption should always be that strong regional functions should be the primary driver and take precedence over form.

## **Do Multi Area Agreements offer an opportunity to be flexible?**

Based on the Local Area Agreement concept, the Multi Area Agreement seeks to enable local authorities and their partners to collaborate priorities and funding on issues that cross authority boundaries, such as transport, tourism and climate change. Their aim is to challenge and transcend the artificial limits of boundaries between local authorities. Three years on from when Multi Area Agreements were first mentioned in the Local Government White Paper (2006), we were keen to gather contributors' opinions on the Multi Area Agreement process to date. Therefore the question was posed: do Multi Area Agreements allow an opportunity to be flexible? And is the current system voracious enough?

On the whole, the feeling amongst the participants was that Multi Area Agreements are problematic in a number of ways. In particular, it was suggested that the central government departments that develop Multi Area Agreements have little understanding of local areas and their peculiarities. As such, it appears that simply developing a mechanism for closer working between local authorities is insufficient; this must be coupled with greater devolution of decision-making powers to the local level.

There was also the feeling amongst some participants that whilst Multi Area Agreements had once been seen as innovative and inspired, this had been negated by the minutiae of targets. It was argued that the introduction of the National Indicator Set for Local Area Agreements and the prescriptive nature of Multi Area Agreements have made the process 'uninteresting' and 'uninspiring'. The general feeling amongst the participants was that the spirit of Multi Area Agreements was welcome, however the bureaucracy and target driven culture that has developed is corrosive and threatens the potential for innovation, therefore failing to streamline decision-making and minimise bureaucracy. This bureaucracy, it was believed, was preventing local authorities from responding quickly to particular issues.

One contributor also suggested that Multi Area Agreements are failing to truly cross boundaries and there's a lack of synergy between Local Area Agreements, and that they bring little added value to the sub-regional working that many local authorities conduct independently. As such, there was feeling that Multi Area Agreements are failing to bring anything new or innovative to what's already being done.

There was, however, room for optimism with some participants noting that they were indeed a 'step in the right direction'. One contributor, for example, commented that we have come a long way in the last ten years. For instance, on the whole local authorities are no longer in competition. It was suggested that we need to develop the current Multi Area Agreement system, and avoid losing the gains that have been made to date.

#### **Summary**

There was a feeling amongst respondents that whilst in principle Multi Area Agreements were welcome, innovation had been fettered by the bureaucracy surrounding Multi Area Agreements and their prescriptive nature. Whilst it was agreed that they are problematic, it was felt that they were a 'step in the right direction'.

#### **How can local authorities re-think economic growth?**

Having explored some of the governance issues regarding managing local economies, the group were asked to consider whether we needed to reconsider the assumptions that underpin economic growth. It was suggested that maybe we needed to accept that 'non-growth'; 'smart growth' and 'sustainable growth' are a necessary part of a modern free market society, and that local government should account for this. This led to a discussion around the distorting nature of the language of growth and it was accepted that growth in the form that is commonly understood was insufficient, and that we should return to a truer understanding of the nature of growth. Orthodox approaches see economic growth as referring to the increase in a specific measure such as gross domestic product, or per capita income. Locally this means a growth in the wealth of a place. However, linked to economic growth is the notion of economic development. If growth is about the measure of progress, development relates to positive consequences of growth in terms of reduction in poverty rates and improved life expectancy. It is often assumed that economic growth will benefit the population through increase in jobs and material commodities. However, whilst recognising that economic success is a prerequisite of an area's success, it was agreed that we cannot always make the connection between economic growth and economic development.

Furthermore, the over simplification of 'growth' has led to a culture, epitomised by ideologies such as 'value for money' and 'best value', where local government is essentially dependent on this language and culture in order to access funds from central government. It was noted though that although local government has more powers than it has ever had before (and this was welcomed), those freedoms often do not get far off the ground because of the financial limitations. The financial relationship between central and local government, as is so often the case, was seen as a major obstacle to a change in culture.

In attempting to achieve a better understanding of growth, one suggestion was that we should reconsider GDP as a measure of growth – but that although a desirable goal, it was decided that it

was too much of a “powerful beast” to shift. One participant said that economic growth only leads to a limited increase in ‘happiness’ before it plateaus. Another participant suggested that growth itself is not the problem, but maybe there were not enough incentives to encourage long term planning, encompassing much wider social and environmental concerns.

The debate shifted towards a more practical discussion around responses to the downturn, and about local government’s role in what was described as ‘place shielding’<sup>1</sup> as well as ‘place shaping’. The main focus of this discussion was on retaining and developing skills and encouraging local authorities to develop an economic environment which is suitable to each particular area.

If a conclusion were to be drawn from this, it is that there is a fundamental problem with the way economic growth is currently conceptualised. Perhaps the problem is not necessarily around growth per se, but actually in encouraging a much wider, more complicated understanding of the true meaning of growth: an understanding that conceptualises growth in terms of sustainability, quality of outcomes and equity. This perception change also needs to take into account resilience and utilise the commercial, public and social spheres in future economic development.

This is the challenge – fostering an environment in which this more complicated kind of growth can thrive, and can be understood in differing ways. This kind of localist growth cannot happen if government interferes too much. There is no ‘one size fits all’. The problem is the wrong kind of governance, not growth per se.

#### **Summary**

From the discussion, an interesting debate arose with regard to the re-thinking of economic growth. It was felt that the prevailing orthodoxy around ‘economic growth’ fails to recognise the importance of economic development and that in fact, economic growth can potentially hinder economic development by exacerbating inequality, damaging the environment, and prioritising increases in wealth over communities’ wellbeing. The solution lies in ensuring that ‘economic development’ is enshrined into the system of governance and way of thinking over simple ‘growth’.

#### **What are the potential barriers to developing local economies?**

Having explored how local authorities may re-think economic growth, the final question posed to the contributors was, what are the potential barriers facing local authorities? The two key barriers identified in the discussion that followed were around working within environmental limits and local authority structure.

Developing local economies within environmental constraints and adapting to a changing climate were seen by some of the participants as a challenge facing local authorities. However, there was a strong feeling amongst other contributors that we need to ‘reconfigure’ how local authorities think about environmental issues, and that the environment should not be considered as a constraint but as an opportunity; an asset and a part of the future.

It was argued that at present there is a disconnection between developing the economy and the environment, with the two often being viewed as distinct and irreconcilable. However, this was challenged within the discussion with some arguing that the environment has an important impact on the economy, and that local authorities must recognise this. For example, preserving and developing green spaces make places more attractive and pleasant places to live, work and visit, thus stimulating local economies as well as improve local environmental quality. Moreover, green spaces can be the catalysts for wider social and economic spin-offs in terms of improved health and wellbeing, providing employment opportunities and so on. Whilst some participants suggested that we should not strive to quantify the impact that the environment has on the economy, lest we lose regard for the intrinsic value of nature, others suggested that ‘costing’ the environment in terms of economic impact may be

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<sup>1</sup> See Local Government Chronicle, 23<sup>rd</sup> October 2008, accessed at: [http://www.lgcplus.com/News/2008/10/quirk\\_calls\\_for\\_placeshielding.html](http://www.lgcplus.com/News/2008/10/quirk_calls_for_placeshielding.html)

an effective way of encouraging local authorities to view engaging with environmental issues as an opportunity, not a barrier.

A second perceived challenge that emerged from the debate was that of local authority structure. It was suggested that local authorities are characterised by entrenched hierarchies and that internal structures do not facilitate innovation and flexibility. From the discussion, it seems that public institutions need to be repositioned in order to encourage creativity, innovation and flair. It was suggested that this could be achieved by structural changes, or by introducing further incentives and motivations for local authority staff. There was a general feeling amongst participants that innovation occurs *despite* the structures of local government, rather than being facilitated by it. It was also recognised that whilst there are instances of innovation in local authorities, it can be difficult to retain staff who may be tempted by the private sector.

### Summary

From the discussion, it emerged that responding to environmental change and internal structures were deemed to be the most significant challenges facing local authorities. Developing local economies within environmental constraints was seen as a pressing challenge, however it was suggested that we ought to reposition the environment as an opportunity, not a barrier, for economic development. It was also felt that local authority structures are not conducive to innovation and creativity, and that public institutions need to be repositioned in order to respond to this.

### Conclusions

The aim of the event hosted by CLES and Localis was to stimulate discussion and debate about the strategic role of local government in promoting economic development. At a time of economic recession, this debate is particularly timely, with a growing recognition that now is the time for local authorities to re-think their approach to economic development in order to forge resilient places for the future. A number of interesting conclusions can be gathered from the debate:

- Whilst there is a need for some level of governance at the regional level, there are a number of issues with Regional Development Agencies in their present form;
- Multi Area Agreements, it would appear, are not fulfilling their potential. Whilst the principles underpinning MAAs may be sound, they may become stifled by bureaucracy;
- The assumptions that currently underpin economic strategies, i.e. economic growth, need to be reconsidered. The over simplification of 'growth' needs to be challenged and local authorities may need to rethink the principles that underlie their economic strategies. This is particularly pertinent in a time of economic recession where traditional strategies for economic growth, such as inward investment, are being challenged; and finally
- A lack of creativity and dynamism within local government may act as a barrier to developing effective and innovative economic strategies. Developing local economies within environmental constraints also appears to be a challenge. However, it is important that the two entities, the environment and the economy, are not presumed to be dichotomous entities.

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