

From agreement to action: Supporting regional development through contracts across levels of government

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Introduction

The growing involvement of regions in public investment and service delivery represents one of the most significant governance reforms of the last half-century in the OECD,¹ and the organisation of such sub-national institutions has been linked to productivity outcomes.² Multi-level governance arrangements often raise questions, however, about the co-ordination required to support effective interventions from multiple actors. One mechanism to consider here is the contract, and how this binds different layers of government in regional policymaking.

A contract for sub-national action comprises two or more parties across levels of government coming together to agree on delivering a shared objective. Within the domain of regional development, examples of such objectives include commitments to innovation, infrastructure, and economic development more generally, as well as social services. Contracts help address multi-level governance gaps – e.g., objectives, information, capacity and funding – and provide an opportunity for the effective territorialisation and adaptation of public policy. A recent OECD study showed that 20 out of 29 OECD countries were using contractual arrangements in 2024.³

¹ https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/12/regional-governance-in-oecd-countries_a9c03edb/4d7c6483-en.pdf

² <https://onlinelibrary.wiley.com/doi/10.1111/jors.12334>

³ <https://www.oecd.org/content/dam/oecd/en/events/2025/05/ministerial-meeting-on-regional-development-policy/kip-rdpc-ministerial-meeting-2025.pdf>

Contracts comprise both vertical and horizontal dimensions. The vertical dimension involves different levels of government striking an agreement, whereby local and national government show reciprocity (e.g., quid pro quo) or agree to work together (with each layer responsible for distinct roles) to achieve a common aim. The horizontal dimension can relate to the need for the contract to marshal different bodies at the national government level to secure the agreement and cover several policy fields (working across departments), while multiple local authorities or municipalities may need to come together to form a coherent geographic unit at the local or regional level. In some contexts, contracts may involve two levels of government, while in other contexts, such as Australia, there may be three - federal, state, municipality (also relevant here are the devolved administrations in the UK context).⁴

A key consideration is whether contracts form part of an approach to asymmetric devolution, and the sequencing of contracts within a nation-state may determine which localities are effectively pilots, or even privileged, in policymaking. The varying and evolving capacity of different levels of government to participate in contracting processes and to take on the responsibilities set out in the contract, is a central issue. Moving ahead with some places over others risks creating an uneven playing field – even where contracts involve modest resource amounts – and parity of treatment warrants attention.

There are numerous examples of how contracts materialise in practice. City or Regional ‘Deals’ have been the most visible form of contractual governance in recent years in a number of English-speaking contexts (Australia, the UK, and announcements made for New Zealand more recently). France has a long history with contractualisation, including the ‘contrat de ville’ and the ‘contrat de plan État-région’. Additional examples include Iceland, whilst there has been more recent adoption in Portugal.

So, what do these contracts have in common?

- Signed by independent (elected) parties (but not always)
- Facilitating the allocation of competences in a clear way by allowing for resource sharing and agreement on outcomes, objectives and targets.
- They do not correspond to specific law decrees; rather, contracts allow agreements to be reached between levels of government without constitutional reforms.
- Easy to use tool, but it may take a long time to agree on objectives.
- Assessing their outcomes is neither simple nor readily done.

Key steps in the contractual process

Contracts for regional development require supporting institutional conditions to be effective. This may require a political impulse in sub-national policymaking – such as the concern for localism in England in the 2010s – which engendered deal-making. In other contexts, an understanding of

⁴ <https://journals.sagepub.com/doi/10.1177/0969776418798678>

regional development roles and challenges – perhaps through a “national urban policy” or a national plan for regional development – may provide the basis to strike an agreement.

There are merits to a clear nationally-guided framework which lays out the terms of engagement. National frameworks may guide the overall objectives, set out the resources available to deliver the projects (and manage the contract itself), and consider the steps that need to be made around monitoring and evaluation, plus assurance. Regional strategic development plans are equally needed to guarantee that contract objectives, resources and implementation conditions are adapted to sub national needs and opportunities. In the absence of such frameworks, information asymmetries can emerge where contracting parties do not know what is on the table.

Despite the different origins and institutional architectures, we can point to a series of common phases:

- a) **Identification of objectives and consultation** – selecting priorities on the basis of common reference points and agreed indicators:

There are several aspects to establishing objectives. First, national guidance might set out what is expected - especially where the national, or supra-national body (like in the European Union) provides resources for interventions. Second, there are the local processes which convene different parties and constituents to give a view on what is most important. Indeed, here, the extent to which contracts support participatory as well as representative democracy may be considered.

A key question is whether the contract is open to public scrutiny, or whether representative democracy permits such agreements to be made by elected representatives alone. For example, the national framework in New Zealand proposes scope for engagement from indigenous groups,⁵ whilst in the UK, in the early wave of City Deals, there was some scepticism about the effective incorporation of public voice.⁶

Metrics and validation typically flow from the objectives, yet may have different practical roles. In some cases, metrics may offer a simple lens for routine audit, whilst in other cases they may be performance-based and support “payment by results” mechanisms. In the latter, funding from national government for a later stage of the contractual process is contingent on a sub national authority achieving initial objectives set out at the start of the contract. The 5-year gateway mechanism built into the Glasgow city-region deal in Scotland determines, for example, if sufficient progress has been made to the satisfaction of the parties providing funding (the UK Government and the Scottish Government).

- b) **Negotiation, agreement and signature** – ensuring the right co-signatories are involved:

⁵ <https://www.beehive.govt.nz/sites/default/files/2024-08/Regional%20Deals%20Strategic%20Framework.pdf>

⁶ <https://journals.sagepub.com/doi/abs/10.1177/0042098018757394>

It is crucial to have the relevant sectors and places involved, ensuring they are represented by those who have the authority to create a binding relationship. This may include several national-level entities, as well as different forms of regional entities, particularly in countries without an elected regional government. For example, Iceland's Regional Plans for Action bring together the central Government and the Regional Associations of Municipalities, which coordinate regional planning and development in a country with only two administrative levels: the State and municipalities.⁷

The negotiation and agreement phase can follow numerous steps. First, there may be a light touch proposal or memorandum of understanding, signalling an intention to come to an agreement in the future.⁸ A final agreement, with responsibilities and funding agreements, may follow a number of months or, indeed, one or two years later. Timing may depend on how the negotiation proceeds and requirements, for example, for finalising project-level business cases within the agreement. In the French State-Region Plan Contracts, there is a long period of negotiation, and the contracts play an important strategic role, with objectives defined around region-specific territorial diagnosis, addressing a variety of issues from talent to attraction and retention to managing the ecological transition.⁹

- c) **Implementation phase** – in relation to sub-national capacities and the objectives of the contract:

Implementation, and its complexity, hinges on the nature of the contract signed and on whether it is relational or transactional. In “transactional” contracts, all parties can anticipate the final output, as the process and components of the contract are apparent and clear to all parties. This means it is more straightforward to implement. In “relational” contracts the result is not straightforward, as there may be uncertainty about how you achieve the objectives of the contract, and who should be involved. There are clear implications for monitoring – for instance, in a relational contract, monitoring can identify problems and lead to adapted working.

So, transactional contracts are clearly defined ex-ante, while relational contracts require ex-post adaptation. In practice, we are likely to see characteristics of both in contracts for regional development. For example, the Portuguese programme-contracts follow a hybrid arrangement. Here, we can see elements of transactional contracting – such as the roles of the central Government and the Commissions for Regional Development and Coordination, and targets set for specific indicators across several sectoral areas – as well as relational

⁷ <https://oe.cd/69M>

⁸ <https://www.infrastructure.gov.au/sites/default/files/migrated/cities/city-deals/launceston/files/launceston-mou.pdf>

⁹ <https://oe.cd/69N>

contracting, given integration of the new competences at the regional level and monitoring need to be designed after the signature.¹⁰

- d) **Evaluation and flexibility** – including revision of the contract, repetition of short-term contracts versus long term agreements, and support for subsequent negotiation:

Flexibility in the contract is a principal concern. In other words, how does a contract adapt as times change and on what grounds can adaptation happen? This may relate to changing governments, new local needs, and external shocks. Monitoring and evaluation, and the assessment of progress against key indicators, should ideally inform considerations for flexibility. In short, the world doesn't stand still as a contract is worked through, and this is a particular concern for long-term contracts (e.g., seven years between the French National government and Regional governments).

There are two obvious ways to provide flexibility – one, contracts can have a built-in mechanism for this (e.g., a mechanism for resource re-allocation across different initiatives under certain criteria), or, two, parties proceed with shorter contracts. The longer the contract, the more likely it is that it will apply across electoral cycles. On the one hand, this can be useful and bind different levels of government through a commitment to joint projects and programmes despite political change. On the other hand, it is plausible that deals may find less favour as a result of changing political arrangements and leadership priorities. Whether a political change may lead to a deal abandoned or remodelled, or simply implies that a further follow-up deal would not be committed to, warrants consideration.

As hinted above, evaluation receives variable commitment more generally. In the Australian context, we can see some annual progress reports produced in an effort to provide a view on deal developments.¹¹ More recently, the framework developed for deal-making in New Zealand signals an intent to develop monitoring and evaluation, though this, to date, rests on broad principles.¹²

Policy environment around the contract

Beyond these contractual phases, policymakers need to be cognisant of the policy environment around the contract.

A first consideration is developing a contract as a way to build more enduring relationships across the governance domain. While much policymaking energy goes into developing the contents of the contract – as this relates to the delivery of regional development projects and interventions, and the need to satisfy value for money and benefits logics, among other things – contracts need to be considered more broadly, with specific thought given to supporting long-term relationships across

¹⁰ <https://www.portugal.gov.pt/pt/gc23/comunicacao/noticia?i=a-regionalizacao-possivel-sem-prejudicar-a-necessaria>

¹¹ <https://www.infrastructure.gov.au/sites/default/files/documents/townsville-city-deal-review.pdf>

¹² <https://www.beehive.govt.nz/sites/default/files/2024-08/Regional%20Deals%20Strategic%20Framework.pdf>

the parties. This is particularly vital where the contract emerges in a context where trust or understanding between different tiers of government is low.

Such relationship building is also important where the contract ushers in greater devolved responsibilities for localities. Here, it is important to assess the capacities that can be developed through agreeing to and implementing a contract, and to consider how these capacities might support future policymaking.

We also need to consider contracts amongst other modes and mechanisms of sub-national policy. Contracts rarely sit on their own, but, instead, form part of a suite of sub-national economic development policy mechanisms binding different tiers and parties of government. Given this, policymakers may benefit from a systems view and consider how the objectives of the contract are mediated and shaped by other policy tools. Any resource allocation within a contract stands apart from other fiscal equalisation mechanisms. Therefore, in practice, contracts may only reflect a small share of the resources linking different levels of government together, so any view on the impacts of the contract, and what it has achieved, will need to take this into account.

Summary

Contracts are increasingly popular across the OECD and may help to address a number of gaps in multi-level governance. They are tools to implement the allocation of competences across levels, which may resolve implementation challenges and address the need to provide place-based responses. However, getting the institutional architecture right to support contracts, positioning contracts effectively alongside other regional development tools, and ensuring the legitimacy of the agreement with wider stakeholder buy-in, are key issues for policymakers to grapple with.

Contracts are context dependent yet far from unique in terms of the nature of the policy tool, presenting an opportunity for cross-OECD policy learning.