

the local double dividend: securing economic *and* social success

A Smith Institute 'policy in the making'
discussion paper by Neil McInroy and Matthew
Jackson, the Centre for Local Economic
Strategies (CLES)



This report was written By Neil Mcinroy and Matthew Jackson from the Centre for Local Economic Strategies (CLES). It was edited by Paul Hackett and published by the Smith Institute.

We are especially grateful to the Carnegie UK Trust for help in supporting this project.



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Executive summary

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In many parts of the country longstanding problems of inequality, disadvantage and poverty persist. These problems are not confined solely to economic factors, such as de-industrialisation and the decline of traditional industries. Many of the nation's disadvantaged areas also suffer from a social deficit where the absence of growth has eroded the social infrastructure and social capital, and added to the rate of decline.

This paper argues that in rebuilding and progressing local economies it is vital to both protect and develop the social fabric, which is all too often an undervalued component of achieving sustainable, shared prosperity for local communities. Our argument for capturing the double dividend – of both economic and social success – reaches out to all local communities and all stakeholders who are seeking a fairer deal. Whilst we recognise the importance of achieving higher local GVA and improved economic efficiency, these should be viewed as drivers alongside social capital for achieving a better quality of life and better well-being for all local people. As this paper seeks to demonstrate, business success can come with community benefit and social improvement. Indeed, we argue that social improvement is itself a critical factor in delivering economic success.

Whilst a recent return to some national economic health has occurred, it is already evident that economic growth is geographically and socially skewed. Indeed, after decades of policy interventions the UK remains blighted by entrenched spatial disparities with growth in London and the South East set apart from the rest of the country. Part of the problem is that social outcomes are not equally recognised and planned for, not least compared with national and local policies to promote economic efficiency and business competitiveness. Social benefits are all too often reduced to outcomes from a 'rising tide' of economic growth, rather than viewed as significant in themselves. This paper seeks to place the spotlight on the social drivers of good growth, and suggests ways in which local communities can find their own solutions to tackling social and economic problems.

The paper promotes the notion of a 'double dividend' built on both economic *and* social success. A dividend which focuses on developing social outcomes as an intrinsic and fundamental part of achieving local prosperity. Rather than viewing local communities as mere downstream recipients of economic success (as beneficiaries of actions designed to deliver 'trickle down' growth), they should be seen as active upstream parts of a system which creates success in the first place. Social success, in the form of more jobs, decent wages, rising living standards and civic pride, is thus less a mere consequence of economic development action, and more something which feeds into and sustains a virtuous local economy for all. Economic efficiency is an important policy goal, but so too is social equity and fairness.

The push for devolution of powers and resources to local government and cities represents an opportunity to combine economic and social growth strategies. However, as the paper argues there needs to be a change in thinking at the level of Whitehall and the town hall to deliver more joined up, place-

based policy making. To realise a social return from growth demands a more deliberative and conscious set of inclusive policies which support business growth at the same time as building enduring social and civic institutions and maximising opportunities from collaboration and social networks.

The paper documents the failings of past policies and makes the case for an alternative approach to achieving social and economic benefit based on what works locally. It highlights the opportunities and risks offered by devolution and makes the case for:

- **Social capital and networks as economic engines.** There is increasing recognition that strong links between social capital and economic prosperity are important. Inputs to a successful economy are not simply about physical and financial capital (and crude economic indicators, like GDP), but also concern human and social capital. Location decisions for people and businesses can be influenced significantly by how somewhere is perceived in terms of attractiveness as a place to live and viability as a stable business environment. Indeed, places where communities work well and have good levels of social capital are more attractive to potential residents and investors.
- **Promoting business citizenship.** There is a mutual reliance between the private and social sectors to ensure that the local economy functions for all. The local state must assist in ensuring that private businesses contribute to the creation of an effective workforce and a wider economy which supports business success. Communities in turn rely on sustainable employment to provide financial and personal stability.
- **Maximising the power of procurement.** Local Government in England spends around £45bn a year buying goods and services. The process of undertaking this spend (public procurement) can enable a double dividend if undertaken progressively.
- **Developing local labour markets.** The local state can play an active role in developing local labour markets, not least as a conduit and 'fixer' between individuals, social sector businesses, training opportunities and local economic policy.
- **Community wealth building.** There is a need to 'lock in' local economic wealth, including a focus on local goods and services that are the important to local economic and social life.
- **Developing role of anchor institutions.** Interest in the role of anchor institutions (which have a long term investment in an area or cannot easily relocate) has arisen in recent years due to their potential to generate economic growth and bring improvements to the local community and environment. Examples include universities, hospital and housing providers.

The local double dividend

The local double dividend

Introduction

We know that longstanding problems of inequality, disadvantage and poverty persist even in times of economic growth. Whilst a recent return to some national economic health has occurred, it is already evident that growth is geographically and socially skewed and uneven. Long-standing issues of deindustrialisation, worklessness, low skills and underinvestment remain in many areas. So, even with a return to economic growth for the nation as a whole a positive economic and social future for some local areas – and the people that live in them – is not assured. Indeed, some of the recent thinking around agglomeration theory¹ advocated by the so-called 'New Economic Geography'² school purport that government should effectively abandon all efforts to rebalance the economy and let market forces determine the economic and social landscape. Under this laissez-faire approach, the prosperity of the UK should be shaped by where spatial agglomeration is greatest and productivity rewards are highest – namely in London, and the other major cities. Other places, as a result, would be losers and become more reliant on the success of 'super-cities'.

In contrast to the argument that policy should focus solely on economic success where there is already significant critical mass, this paper advocates an approach to local prosperity whereby an enabled local state seeks to ensure that local communities enjoy the fruits of any growth.³ As a counterpoint to spatial agglomeration the argument for fairer and sustainable growth appreciates that spatial imbalances are wasteful and socially destabilising.⁴ Economic efficiency is an important policy goal, but this paper asserts that social equity and fairness is of equal importance.

The devolution of powers and resources to local government and cities could facilitate this localised approach. Indeed, freed from the tramlines of central government there could be a significant social dividend in the development of forms of economic growth which fit more securely with local characteristics and social need.

Up until recently the community benefits of growth have been mostly piecemeal and confined to planning gain and particular policy initiatives, such as Business Improvement Districts or funding tools like Tax Incremental Financing and planning gain on new housing developments. The ideas set out in this paper take the concept of community benefit and social equity further, with greater stress on how social investment complements and actively supports economic growth.

This concept of a double dividend is already happening, as the case studies shown later in the paper demonstrate. However, in many instances the examples lack momentum, cultural will and are resource lite. The challenge facing policy makers is how to raise awareness, enhance capability and scale up best practice.

Against the backdrop of continued fiscal austerity many areas will soon have no other option than maximising what resources and assets they have. The prospect of doing nothing will merely fuel

existing spatial social and economic inequalities. As we argue throughout the paper, making the most of social capacity must be a much bigger part of the solution to achieving sustainable local growth – in areas of both disadvantage as well as places of opportunity.

An unequal and divergent economy

The last 30 years of economic development policy and regeneration activity has had its successes, but broadly failed to end regional economic divides and the longstanding disparities of economic and social disadvantage. There is still a looming economic gap between London and the rest (London and the South East now account for 36 per cent of total GVA in England). Furthermore, the regional divide is widening and at a faster pace than elsewhere in Europe.⁵ According to the Smith Institute, over the past 20 years relative growth has risen steadily in London (and relatively faster during the recession); remained more or less static in the East and South East of England; and fallen in the Midlands and each of the three Northern regions.⁶

Part of the argument about why the imbalances remain so ingrained rests in the way tax and spend is divided between local and central government. Central government's share of public spending in the UK, for example, is 72 per cent, compared with only 19 per cent in Federal Germany. Yet, the economic divide between the German Lander is much less than between the UK regions. The economic geography of England's cities shows a similar pattern of central control. Research from *New Economy* (2014) shows that of the £23bn of public funds spent in Greater Manchester, central government controls how £16bn is spent and has a significant say over the rest.

The disparity on the tax side is equally pronounced. According to the London Finance Commission (2013), only 7 per cent of all the tax paid by London residents and businesses is retained by the Mayor and the London boroughs. The figure is even less in other cities, although it should be noted that most of the major cities outside of London run a large tax and spend deficit. The deficit between public spending and tax generated in Greater Manchester, for example, is nearly £5bn a year.

Successive governments (dating back to the inter-war years) have struggled with rebalancing the economy. Under the last Labour government the focus in England was on supporting regional economies through nine Regional Development Agencies (RDAs), established as business-led non-departmental bodies and coined by ministers as 'economic powerhouses'. Funding for the RDAs from across Whitehall was increased from £1.7bn a year to £2.2bn over the period 2006-10 and was complemented by targeted area-based regeneration and housing programmes, such as the Housing Market Renewal Pathfinders Programme and the Growth Areas initiative. Despite these efforts (which were supported by a regional government office network, EU regional funding and improved regional spatial planning), economic rebalancing remained an uphill task. Indeed, by the time of the 2010 election the economic position of the regions has stayed virtually the same since the 1980s. It could of course be argued that the gap (within and between regions) would have been wider without active interventions.

The previous Labour government did experiment with locally led economic initiatives (such as the Neighbourhood Renewal Programme) and initiated the policies for combined authorities and city-regions. However, the pre-recession years of growth were also characterised by Whitehall led housing, skills and transport programmes (such as the multi-billion 'Decent Homes' programme). In retrospect, the pace of English devolution outside of London over the period 2000-2010 seemed painfully slow. As Sir Michael Lyons commented: "the history of the last 30 years is marked by a series of well-intentioned devolution initiatives, which have often evolved into subtle instruments of control."⁷ The story was different in London, Wales, Scotland and Northern Ireland, which have retained much of the regional institutional architecture lost to areas in England.

One of the principal failings of past policy approaches in England was not that they were just 'top down', but that wealth creation often came with inequality and investment often failed to 'trickle-down' to communities as anticipated. Places that failed to succeed became trapped in a vicious spiral, where weak performance led to fewer opportunities and a loss of capability.

The introduction of a more stakeholder approach to regeneration funding and the insistence of partnership working and more joined-up policy making (such as Labour's flagship £2bn New Deal for Communities programme) was seen as a means of combating this, sometimes successfully. However, policy support for disadvantaged areas was often discretionary and piecemeal, with the measurements and metrics for local programmes set centrally. Local projects were often time limited, ring fenced and detached from each other. Some programmes would be locally based (social housing) and others (skills and transport) would remain national. Much of the emphasis was also on securing private finance and leveraging public funding.

The incoming Coalition Government abolished the RDA's, which ministers claimed were remote, expensive and ineffective. They were gradually replaced with 39 private sector led Local Enterprise Partnerships (LEPs), which vary in size and status. Previous RDA single funding pots have been partly replaced by a mix of government controlled funding regimes, such as the Regional Growth Fund. Needless to say, the overall funding for local growth (including grant funding for transport, housing and skills training) have been significantly cut back.

Whilst there has been some delegation of funding to city regions and combined authorities, much of the regeneration/local business support funding is now channelled through a competitive bidding process. There has also been a sweeping away of the area based initiatives and a new mix of policies which support local philanthropy and incentivise particular types of growth programmes, such as the New Homes Bonus which rewards councils for building new homes.

Whilst these changes are significant they have had much less of an effect on local government than the overall spending cuts, which have led to the closure of many community based projects. According to the LGA, local government will have suffered a 42

per cent real terms reduction in funding over the period 2010-15, leaving a financial black hole going forward of around £2.1bn per year. Central government funding for 2015/16 is meanwhile forecast to fall by an average of 8.8 per cent. Renewing local economies against such a backdrop of continued austerity poses an enormous challenge to local government whoever wins the general election.

City Devolution and national redistribution

A recent body of reports has ramped up the push for devolution, including work by Lord Heseltine, Lord Adonis, the London Mayor, the Core Cities Group and the RSA's City Growth Commission.⁸ Impetus has been gained following the Scottish independence referendum and the Smith Commission report. More than 20 City Deal schemes have been announced since 2012, and last year Liverpool, the Greater Manchester Combined Authority⁹ and Sheffield City Region¹⁰ struck groundbreaking City Region Growth Deals with central government (with the Leeds city Region expected to follow soon).

Despite some division of opinion around city-region governance structures there is a cross-party recognition that local economic growth is best served when it comes with some local control. It's also widely acknowledged (although far from universally accepted in Westminster) that devolved decisions about housing, transport, skills, business support etc. are best made by town halls and combinations of local authorities, working with businesses, local communities and local economic bodies (such as the Local Enterprise Partnerships) rather than Whitehall departments. With this comes an acceptance that social need and demand on public services can be better addressed by co-ordinating spending across local authorities and local agencies.

However, the political consensus breaks down on the topic of funding priorities, local fiscal freedoms and around the balance between local autonomy and the equalisation of funding. One of the main concerns among local councils in disadvantaged areas is that hypothecated funding (such as full retention of business rates) could reward the already wealthy and lead to a significant depletion of common funding pots. This concern is brought into sharp focus when applied to some of London's richest boroughs. The borough of Westminster, for example, has an income from business rates worth nearly as much as the eight largest English cities combined.

The agenda for change is mostly centred on economic growth in cities, with less attention on areas beyond the cities or concern about inequalities within and between places. This is, as already mentioned, in part a factor of the government's preoccupation with agglomeration economics. Therefore the focus is on the larger cities, as this is where there is greater likelihood of cost reductions, increases in productivity and where the potential for profit attracts the most investment capital.

In areas with no new devolved powers (and in some outlying city areas) there is less opportunity, much lower values and difficult issues around transport, skills and housing. The retention of inequality within regions and across the country is probable,

if growth prospects in these "less advantageous" places is overlooked.

Agglomeration can, of course, create greater levels of economic growth and jobs. Furthermore there could be a virtuous 'trickle outwards' toward the outlying suburbs and neighbouring towns. We also know that any economic growth within the city region and city centre creates 'problems of success', such as an increase in land, property prices and rents and other associated 'downsides' such as congestion. These 'problems' may be good for outlying and poorer areas as investment and businesses would start to look to cheaper locations beyond the city centre and city region.

However, agglomeration without a general context of national economic growth extracts economic activity and energy from elsewhere. We also must question how a singular focus on city agglomeration can solve city or national inequality, without dealing with the arguably bigger questions of national and intra-city redistribution. Failure to do so will heighten the stakes between winners and losers, which in turn will make co-ordinating public investment for transport and industry between places all the more protracted. There surely needs to be not just greater sensitivity to connecting places and integrating policies to achieve that, but also to the social dimension – to how narrowing inequalities within places can itself promote economic growth.

The city devolution agenda in this sense needs reconfiguring, with less emphasis on Treasury-backed agglomeration policies and more on social investment and addressing city-wide inequalities. It cannot be a mere spatial reshuffling of the existing haves and have-nots.

The change which precedes an economy for all and greater levels of social inclusion would require national (and local) government to recognise that inequality is socially and economically destabilising,¹¹ and that an innovative state can tackle inequality.¹² As the most recent OECD research has shown, more equal societies do better economically in terms of innovation and social mobility.¹³ Growing income inequality becomes a constraint on growth, not least (as the OECD research documents demonstrate), in large part because poorer members of a community are less able to invest in their education and skills. Tackling inequality can make our societies fairer and our economies stronger, and that includes addressing both inequalities between and within places.

Maximising opportunity is of course important and there are few policy makers who would argue that the devolution or local growth agenda should move at the pace of the slowest in the convoy. Some places are better equipped and more able to embrace change than others, which may not necessarily be a factor of their economic readiness or attractiveness to investors. However, the future needs a central (and local) government which acknowledges that the poorer areas require more of a hand up than wealthier areas. Local economic development is often hampered in these areas because of poor skills and weak investment propositions. A failure to balance incentives between

places of need and places of opportunity is therefore critical. Focusing growth policies and resources for community support on rewarding just the winners and punishing losers will only further deter investors and widen inequalities.

London and the core cities are leading the argument for the devolution of more fiscal powers as a means of addressing some of these local social issues, harnessing any accrued wealth for limited forms of local distribution.¹⁴ This is not without problems. Firstly, as public spending pressures are greatest in poorer areas it is unlikely that the development of a local tax base alone will be able to support any improvement – indeed reliance on a dwindling local tax base creates greater reliance on central government subsidy.

Secondly, in the present tax system, London is a net contributor to the public purse¹⁵ – it gives more to the public purse than it takes. In contrast, all core cities (bar Bristol), are net beneficiaries. Any fiscal devolution to core cities and London would mean cities retaining more of the tax they generate. Under this scenario, there could be even more pressure on national budgets and potentially less money for national public services and services in those non-city areas with no fiscal powers.

Although in the first instance retention of local tax revenues (net additions) would be offset by reduced central government grant, overtime that may change and the collective pot could shrink. This is not an argument against greater fiscal devolution, but a warning that an over-reliance on local taxes may exacerbate the problems facing some local communities – especially in places which face disproportionate demands on welfare services (e.g. higher unemployment, ageing population, lower health and educational achievements).

Enabling local economic development

To date, the local economic growth agenda has followed a well trodden path – which assumes that once investment capital is enticed and landed the supply chain will benefit and local jobs will be secured. Unfortunately, that pathway is often not guaranteed or voracious enough. Local growth does not necessarily come with significant new employment, the poorest do not always benefit, gains made are sometimes short term and dissipate and lost once sweeteners are gone, and a historically weakened local economy does not always have the 'local' supply chains.

As it stands the promise of a city devolution approach, predicated on agglomeration economics, is unlikely to address social issues. There is a possibility that a local state, emboldened with new powers and tram-lined by a new order of orthodoxies, merely replicates past local economic development policies or simply implements a version of the national treasury economic model – which has failed to deliver on tackling income inequality. Indeed, there is academic evidence to suggest that the economic benefits from this type of devolution are very limited or highly variable, and over-ridden by the role of national economic growth.¹⁶

To be socially inclusive, plans and activity need to be embraced by a deeper sense of national fairness and redistribution and in turn be more enabling, securing the local links between growth and the improvement in the fortunes of its citizens and businesses.

An alternative approach is needed which seeks to actively secure social outcomes by working to ensure that the system, networks and relationships across an area are at the heart of the policy making process.^{17 18} In order to create social benefits, social objectives must be embedded in the policy framework.

Such an enabling economic development model views the economy through a 'whole place economic' lens.¹⁹ It is thereby through developing social and economic growth in tandem that we can have socially inclusive economies. Local economic policy then can absorb the qualitative aspects of place development, accommodating the breadth of social, cultural, economic and environmental facets that are part of a whole networked system within a locality.²⁰

CLES has shown that systems within local economic development are often characterised in two ways: there are those with a small number of key actors perhaps involving the local state and significant business players who play a major role, making the key decisions that affect a range of people and institutions. And, there are those with a wide range of connected actors from a range of sectors (across public, social and commercial) who play important facilitation and brokerage roles, connecting a wide range of assets and resources.²¹ Improving the quality of the multitude of such relationships within a local economy is the critical ingredient to securing the double dividend.

A double dividend strategy

The basis of the double dividend approach is that any economic benefits accrued through local devolution delivers a social dividend. This borrows from system thinking regarding how activity operates in a network and produces positive outcomes. Perhaps the most fundamental element of a good system is that it is not about independent elements of a singular actor or activity, but about the connections and collaborations. For example, in nature, a typical ecosystem includes air, water, flora and fauna – the importance is how it all works together as a system, not how it works in isolation. This is the same for local economies. Similarly, the success of advanced manufacturing growth requires a series of relationships for success, including inputs of capital, land and labour as well as links with higher education, public agencies and commerce. Growth which delivers a high level social benefit is not just about growth itself, it is about the inputs to growth and how it links with the social and economic context and social need.

Historically local economic policy was always a pragmatic mixed bag. However, in recent times a somewhat neo-liberal take on local economic policy has meant that social outcomes are not equally planned for and developed alongside economic growth, competition and productivity. At best social dimensions are reduced to outcomes of an often over stated 'rising tide' of growth. At worst improved social outcomes are viewed as a barrier to growth, with low wages seen as a price worth paying for greater competitiveness.

A double dividend strategy embraces the need to focus on developing local communities as an intrinsic and fundamental part of economic success. So rather than local communities,

people and society as mere downstream recipients of economic success via trickle down, we should see them as active upstream parts of a system which creates success in the first place. This locally driven growth idea sees social success in the form of more jobs, decent wages and general local rising standard of living, as not just as an end of the line outcome, but also an input. Social success in this instance, is less a mere consequence of economic development action, but as something which feeds into, sustains and creates a virtuous economy for all.

To achieve this, we must have a deliberative and conscious set of policies which support business growth and private gain alongside actions to strengthen the local economic infrastructure and build enduring social and civic institutions.

Social capital and networks

"Some communities can provide the social capital that gets people through tough times, as others can also be so depleted of resource that they are powerless in the face of global change... We need to pay exquisite attention to what is really going on. We risk ignoring it at our peril"²².

There is increasing recognition that strong links between social capital and economic prosperity are important.^{23 24} Inputs to a successful economy are not simply about physical and financial capital, but also human and social capital.^{25 26} Location decisions for people and businesses can be influenced significantly by how somewhere is perceived in terms of attractiveness as a place to live and viability as a stable business environment.^{27 28} Places where communities work well and have good levels of social capital are more attractive to potential residents.²⁹ Therefore social capital is an important link in the chain of prosperity and the activities undertaken by the social sector are central to developing local economies.

Social networks (often overlooked in traditional approaches to economic development) are formed through social capital acting as a mechanism for joining people together in socially and economically productive ways.³⁰ Such networks are important to supporting economic success. The ties between people, groups and local organisations engender confidence and allow knowledge transfer. Furthermore, happiness, health and prosperity all grow when communities and organisations collaborate to support each other, form relationships and work together towards shared goals. These social networks can act as the basis upon which economic activity is forged, a conduit for allowing ideas and innovation to flow, and the basis to well being in individuals (making them potentially more productive workers).

The point to stress here is that local economies are not simply an isolated silo of private sector activity that can be switched on and off. As CLES' research has shown, they are made up of networks of social, public and commercial economic activity.³¹ These aspects are inter-connected and dependent upon one another.

Promoting business citizenship and local investment

There is a mutual reliance between the private and social sectors to ensure that the local economy functions for all. Private businesses rely on an effective workforce and an economy which

can support their operations. Communities rely on sustainable employment to provide financial and personal stability. This reciprocal relationship is of key importance.

With the public sector being impacted by deep spending cuts, the social and private sectors will increasingly need to be at the centre of stewardship of communities. In order for this to be successful there is a need to forge stronger links between the two sectors. At present these are often weak – reflecting a pattern across much of the country.

The emphasis should be a move away from corporate social responsibility (CSR) and towards ingrained behavioural change within both businesses and social sector organisations where the social is not perceived as a 'bolt on', rather incorporated into corporate attitudes and approaches. To achieve this, cross-sector narratives need to be established and developed – not least around the economic and community benefits of business citizenship.

As small businesses are most closely associated with local communities, there is potential for employers' organisations Chambers of Commerce and the Federation for Small Businesses (and other localised business networks) to enhance their existing engagement with social organisations to scope out potential for local collaborative working, and schemes for bringing the two sectors closer together.

The public sector has a key role to play in providing the space to allow these relationships to take root and grow. Examples of this might include providing small scale seed grants to organisations who take on roles organising formal relationships between social and private sector organisations in local areas, and acting in a wider brokerage role between the sectors.

Forever Manchester

FM are the Community Foundation for Greater Manchester, supporting over 1,300 community groups and projects annually. Through a business citizenship approach the charity is seeking to alter and tap into business CSR and philanthropy. It is offering new ways in which businesses can get involved in local communities, such as running community building workshops focused on skills and assets within a neighbourhood, rather than focusing on what's lacking. FM says this type of work seeks to reduce the distance between the business and community and "helps local people discover and share the talents and resources that they already have to make long term improvements to their community".

The relationships between the public/social and private sectors can extend to investment issues, such as directing more (public and private) pension fund investments into supporting local growth. Whilst local private firms may be cautious about intervening even from afar about where their employees pensions are invested, local authority schemes are overseen by local trustees who may be more attracted to the idea of investing funds locally (albeit within the legal requirements on what local government can put into local assets). In principle there is nothing to stop the pension funds or local anchor institutions, like hospitals and housing associations, encouraging their funds to investment more locally.

Be Involved, Bradford

The Be Involved business brokerage service was delivered by Bradford Chamber of Commerce. At the heart of the programme was the transfer of skills from the private sector to social sector organisations through a combination of skills sharing, mentoring, volunteering and pro bono work; in particular supporting local enterprises operating in the most deprived areas or who have customers/beneficiaries living within the most deprived areas. Support to participants in the programme comprised one or more of the following elements:

- *Mentoring* – the main activity of the project was to promote a mentoring scheme, using business brokers to promote links between established local employers and social sector organisations looking to become more entrepreneurial, providing benefit to both organisations.
- *Volunteering* – Be Involved has helped place volunteers from business in activities that allow them to share and develop skills, and support community and voluntary sector organisations. These opportunities ranged from board membership to individual placements.
- *Pro bono work* – supporting professional firms to offer their services free of charge to community and voluntary projects is an excellent way of helping small organisations develop big plans. Be Involved matched participating businesses and third sector organisations on projects that meet the identified needs of both partners and the wider needs of people in deprived communities.

The team at the Chamber worked as brokers for ensuring that the skills needs of the social sector organisations, particularly with regards to volunteering and pro bono work, were met through their understanding of the expertise of interested businesses. This 'matching' process minimised the risk of bringing organisations and volunteers together where specific need was not met.

The LGA has long argued the case for more effective use of local authority pension schemes for regeneration and housing purposes. Although the levels of these so-called local 'impact investments' have so far been fairly low (in part because of restrictions on local authorities investing in their own areas and because of the perception that local projects are much less viable than passive, conventional investments),³² there have been some recent encouraging changes in behaviour. For example, West Midlands, Greater Manchester, West Yorkshire, Merseyside and East Riding have recently launched a combined £152m fund for tailored local investment. Similar initiatives have been taken by some London councils.

Power of procurement

The public sector spends around £240bn a year buying goods and services, with local government procurement in England alone totalling some £45bn. The process of undertaking this spend (procurement) can enable a double dividend if undertaken in a way which recognises and values the local benefits.

In recent years, social clauses have begun to be embedded in

procurement language. Local government has realised that procurement can and should bring wider benefits to communities beyond the provision of a service. Indeed these benefits can include direct spend in areas of deprivation, the creation of jobs and apprenticeships, the development and sustainability of small business and social enterprise, and environmental mitigation.

Despite fiscal austerity and downward pressure on tender pricing, government policies (such as the Duty of Best value and the Public Services (Social Value) Act) permit councils to procure goods and services according to criteria other than simply the lowest price. The Social Value Act (2012) actually requires councils to consider social value in managing procurement. These are welcome developments (supported by recent EU procurement regulations), which can help councils secure the double dividend.³³

However, if procurement is to be used to best effect there needs to be a greater understanding and influence over local supply chains.³⁴ For example, targeting procurement spend in deprived areas can deliver growth benefits as it can lead to a multiplication of spend in that community. However, the commissioning body will also need to take into account the extent to which local suppliers may seek to import labour from outside the area. Some councils are alive to this and have developed more sophisticated procurement through the use of checklists identifying social benefits. In recent years some councils have also begun to use social clauses in contracts linked to paying the living wage and to local recruitment and apprenticeship schemes.

There is clearly potential to use the power of procurement to encourage more employers to pay a living wage to their staff. However, the Smith Institute's recent report on 'making work better'³⁵ showed that local authority procurement officers and legal advisers were often overly cautious about inserting wage clauses. Nevertheless, the case for a more progressive approach to procurement, including the wider use of wage clauses, is gaining ground – in part encouraged by the greater clarity on the legality of such clauses.

West Midlands Procurement Framework for Jobs and Skills

The West Midlands Economic Inclusion Panel (launched in 2010) has produced a framework for how public sector organisations can increase access to jobs and skills opportunities through procurement exercises. The framework, aimed at reducing worklessness, is based around four approaches.

- Charters, where public sector organisations share their strategic priorities to address worklessness with current and prospective contractors.
- Voluntary agreements, where public sector organisations work with existing contractors to secure informal commitments to achieving jobs and skills outcomes.
- Contract clauses, where public sector organisations include contractually binding jobs and skills clauses within specific procurement exercises.
- Strategic application of contract clauses, where public authorities monitor performance against skills and employment commitments through monitoring.

Procurement can support the development of voluntary and community sector organisations, particularly in the buying of services that are public facing, such as adult social care and services targeted at individuals living in poverty (e.g. debt advice services). Similar principles of capacity building and developmental activity in relation to procurement also apply to the small business sector and small- to medium-sized enterprises (SMEs).

According to the National Association for Voluntary & Community Action, the new procurement rules allow for certain contracts, mainly in the social and health sectors, to be "reserved", so that competition is restricted only to local not-for-profit organisations. Potential bidders can also become involved in the planning and pre-procurement process, providing it does not result in any unfair advantage.

Procurement can be used as the means through which public authorities indirectly influence the behaviour of suppliers, particularly in terms of their practices around recruitment and their own procurement policies. Councils can also influence the behaviour of suppliers by making them aware of the challenges facing their locality, such as worklessness and skills shortages.

Manchester City Council – maximising the supply chain

CLES has undertaken a range of work seeking to understand procurement spend, shift cultures in local government and influence the behaviour of suppliers. Work with Manchester City Council focused on spend with the top 300 suppliers (spend of £357 million). In 2008/09, the study found that: 51.5 per cent was spent with suppliers and contractors based in the Manchester City Council boundary, and that suppliers re-spend 25p in every £1 back in the Manchester economy.

The impact of the study resulted in procurement officers thinking about where their procurement spend was going, and how procurement linked to wider economic and social priorities. As a result, Manchester City Council has undertaken a range of strategic activities designed to progress their procurement practices and influence the behaviour of the supply chain. This has included the development of cross-departmental procurement working groups, supplier networks, gap analysis, influencing activities with suppliers based in areas of deprivation (those suppliers with a base in neighbourhoods in Manchester in the 10 per cent most deprived nationally), and the development of an outcomes framework for monitoring suppliers against wider economic and social indicators.

In terms of the procurement process, spend and re-spend in the local economy has increased, as has spending in areas of deprivation: 65 per cent of spend in 2012/13 was with suppliers and contractors based in the Manchester City Council boundary (increasing from 51.5 per cent); the proportion of spend with Manchester based businesses in areas of deprivation had increased to 53.1 per cent (from 47.6 per cent); and suppliers re-spend 47 pence in every £1 in the Manchester economy (from 25 pence in every £1).

Local labour markets

A sufficient stock and flow of basic, intermediate and higher level skills are crucial to the successful development of a local area and to the prosperity of its people. However, the skills of the resident

workforce have lagged behind in many communities, threatening recovery and long-term growth. The lack of basic skills and lack of employability for large cohorts of the population³⁶ reduces the available workforce, constrains economic output levels and reinforces concentrations of deprivation. It also leads to a shortfall of 'good' employment for residents where wages and terms and conditions are at acceptable levels.

There is a need to focus on promoting occupational mobility and opportunity, particularly within deprived communities. The social sector can play an important role here, not least in raising aspirations and providing training and employability skills that employers need.

In-work poverty (with 1m workers paid the National Minimum Wage and some 5m workers paid below the Living wage) is an increasing issue for local communities, especially those that are already struggling with welfare cuts. As the Centre for Cities work shows, there has been a disproportionate growth in low paid work in disadvantaged areas. Many of the poorest areas have also experienced large public sector job losses, with new private sector work often available only on a part-time basis and on lower pay rates.

If low paid jobs serviced by those with basic skills do not pay a living wage and/or have poor terms and conditions, then employment will make less of a difference for people and communities. There is a need for major employers with local organisations to improve access to skills training and higher quality and better paid jobs.

The local public sector could develop principles of good employment practice to be applied for local government/NHS, contracting authorities and suppliers, as highlighted for instance by the Cabinet Office guide on good employment principles.³⁷ This could, as already mentioned, mean higher weighting within procurement assessments around ensuring that employees are paid a living wage³⁸, although many councils struggle to pay both in-house and contracted staff the living wage.

Some areas are now witnessing the emergence of a two-tier workforce, driven by the growth in low skill, low wage employment (and in many areas of stronger growth by skills under-utilisation). According to the Smith Institute, a failure to invest in high-end goods and services will lead to a worsening of skills utilisation, persistent under-employment and continued job insecurity. This path could further encourage the development of a two-tier workforce, with secure and well-remunerated employment at the top and more insecure, low-paid work at the bottom. It could also widen the divide in labour standards between the public, private and voluntary sectors.³⁹

Temporary and agency work is becoming a major concern in local areas, especially casual (mainly work which is mostly in insecure and sometimes on zero hours contracts). Although not all temporary or agency work is per se bad work, there is a worry that a failure to raise local labour standards will generate a 'race

Accredited living-wage councils

Bassetlaw District Council	London Borough of Islington
Birmingham City Council	London Borough of Lambeth
Blackpool Council	London Borough of
Brighton & Hove City Council	Lewisham
Caerphilly County Borough Council	London Borough of Southwark
City of Lincoln Council	London Borough of Tower Hamlets
Crawley Borough Council	Ipswich Borough Council
Falkirk Council	Norwich City Council
Harlow Council	Ollerton & Boughton Town Council
Hessle Town Council	Otley Town Council
London Borough of Brent	Oxford City Council
London Borough of Camden	Preston City Council
London Borough of Ealing	Salford City Council
London Borough of Enfield	Selby Town Council
London Borough of Hounslow	York City Council

Source: Living Wage Foundation

to the bottom' in local pay and conditions, with a detrimental effects not only on productivity but also on local growth and social cohesion. Some Councils, like Corby, Salford and Islington, are taking steps to tackle this problem by forming alliances with local employers and employment agencies in order to set higher standards.

Corby employment agency code of conduct

Corby has a large number of employment agencies, some of which were found to be exploiting workers and adding to the climate of job insecurity in the town. In 2013 HMRC visited local employment agencies and discovered that £100,000 was owed to 3,000 workers in the area. In an effort to combat the problem the local MP, Andy Sawford, and the borough council recently established the Corby Employment Agencies Forum, which sets common, high standards for the town's businesses. The forum, which involves employers, unions, workers, employment agencies and trade associations, has adopted a Code of Practice for Employment Agencies, Client Companies and Temporary Workers, which includes a commitment by employment agencies to operate in a lawful and ethical way and for employers to:

- avoid the replacement of permanent jobs with temporary employment through effective workforce planning;
- carry out regular reviews with their agencies to establish that the management of temporary workers on site is carried out effectively and professionally; and
- contract only with agencies that sign up to the code of conduct.

The forum has signed up 11 of the town's employment agencies and employers, including TATA Steel and RS Components.

Source: Smith Institute, *Making work better* (2014)

A range of inter-linked measures rather than one defining action will be needed to improve local labour standards, including a role for councils to enforce compliance with the National Minimum Wage, wider use of living wage clauses in public procurement, and greater social partnership between councils, trade unions, and local employers. There is also a desperate need for more of a local focus on achieving the right local balance between the supply and demand for skills. Such locally led, bespoke schemes, could focus more on raising aspirations of local residents to return to or join the labour market as well as support greater third sector involvement, especially in engaging the 'hard to reach' learners.⁴⁰

London Borough of Islington's Employment Commission

The Commission brought together local employers, public services, the voluntary sector and residents to focus on solutions to unemployment in the area. The Commission's report (published in November 2014) concluded that radical change is needed in how the system works: not least to provide targeted employment support, based on a coaching and mentoring approach for the people who need it most. It also called on employers to commit to creating good-quality, flexible jobs which pay the London Living Wage; to respect employment rights and make them available to local people; and to create change for the next generation and improve a careers education and employability offer that just isn't consistently good enough at the moment.

The report concluded that "we need to enable employers to recruit better locally by engaging with and supporting their local community. We need to create one place where employers can get the help they need to recruit flexibly and we need dynamic businesses who can get involved and make real change happen for the local area".

The Commission stated that "these are ambitious aims and we all need to work together to make them happen. It will require some change at a national level, to allow local communities to do what is best for people who live locally, but mostly it is about working together to create a culture of employment for Islington and to help people to get, keep and ultimately enjoy their job".

Salford's Employment Charter

The Salford City Mayor's Charter for Employment Standards is designed to help raise employment standards for employees and businesses across the city.

The Charter contains a suite of pledges, grouped in three categories:

- Putting Salford first: creating training and employment opportunities for Salford people, particularly those facing greatest disadvantage
- Buying in Salford: looking to purchase Salford goods and services at every practicable opportunity
- Setting the standard: promoting the adoption of the best possible working practices and conditions, such as working towards the introduction of a living wage, a commitment to eradicating the illegal practice of blacklisting and opposing the use of zero-hour contracts

There are a number of benefits for business, including: entitlement to use the Charter Supporter or Charter Mark recognition on

websites and company literature; and the logo appearing on the Council's website so that prospective employees, commissioners and customers can easily see who supports the Salford City Mayor's Charter.

Employers working in the city are encouraged to voluntarily sign up to the charter. The city council and its partners support businesses interested in achieving this Charter Mark and offers assistance with local recruitment and selection, training and workforce development needs, access to the local supply chain and other business support services

Community wealth building

The Centre for Research on Socio-Cultural Change (CRESC) has been at the forefront of new thinking around community wealth building.⁴⁰ They have suggested that rather than attempt to redistribute wealth via a return to significantly higher levels of taxation, which is unlikely to garner wider support, we should instead seek to reorganise our local economy. They argue for the '*grounded city*', which places an emphasis on the distribution of good and services essential for civilised life, rather than the pursuit of growth, which may be unattainable in some areas.⁴²

The grounded city is one that structures social innovation in a way that meets the needs of the local circumstances. Rather than cities and places competing, they advocate a focus on developing the internal capacity of the places, people and businesses to provide some of the goods and services that are the local focus for social life. In essence this means more local and plural production and ownership of energy, care and food. The '*Grounded City Manifesto*' also stresses that "it is time to think radically about delivering fairness not by redistributing income or reforming schools, but by re-organising sectors of the economy".

The Deep Place approach

The recent report by CREW Regeneration Wales, '*Toward a New Settlement: A Deep Place Approach to Equitable and Sustainable Places*' (2014)⁴³, offers an alternative approach to revitalising post-industrial communities. The report adopts a 'Deep Place' approach to tackling poverty and deprivation in the former industrial town of Tredegar in South Wales. The report argues that a focus on *place* is an effective mechanism for addressing two major interconnected social policy problems: how to overcome the inequitable distribution of wealth and the levels of poverty in post-industrial communities; and, how to effectively adjust to a more environmentally sustainable model of the economy. Although the report does not suggest that the economy of communities like Tredegar should exist in isolation from wider economic activity, it does call for more localised supply chains and patterns of employment across four key areas: food; energy conservation and generation; the care sector; and, e-commerce and employment.

The report concludes that: "Our (current) policies are failing to address the contemporary problems we face, whilst building new problems for the future. We need to radically imagine the future rather than our collective tendency to re-invent the past". The authors call for an alternative approach where:

- Localities are managed as unified spaces, with conscious forward planning which meshes with regional and national objectives.
- There will be a subsidiarity of decision-making that engages with local people to energise and empower them.
- There will be a strong economy, promoting patterns of local economic circulation and associated multiplier affects.
- Residents are well educated, skilled and engaged with the economic realities of the day.
- The foundational economy will be strong and embedded in the delivery of public services.
- The population will not suffer from preventable illnesses and where life expectancy and well-life expectancy reach national norms.
- Our patterns of production and consumption are sustainable and protect the environment for future generations.

Developing the role of anchor institutions

The term 'anchor institutions' is commonly used to refer to organisations which have an important presence in a place, usually through a combination of being large-scale employers, one of the largest purchasers of goods and services in the locality, controlling large areas of land and having relatively fixed assets.⁴⁴ Examples include local authorities, NHS trusts, universities, trade unions, local businesses and housing associations.

Interest in the role of anchor institutions has arisen in recent years due to their potential to generate economic growth and bring improvements to the local community and environment. Anchors have a large stake in the local area because, due to their activities, they cannot easily relocate. For example, while many corporations may be able to move, an airport or a hospital probably will not.

While the primary objective of anchors may not always be local regeneration, the scale of these institutions, their fixed assets and activities and their links to the local community mean that they are "sticky capital" on which local development strategies can be based. According to the Work Foundation: "Making the most of existing assets like anchor institutions will be vital for towns and cities across the UK. Capitalising on these assets represents an opportunity to mitigate the impacts of impacts of recession and do better in recovery."⁴⁵

The influence of anchor institutions on the local area varies according to the anchor's history, resources, activities and partnerships as well as the socio-economic situation in the place and its political landscape. There are therefore a range of ways in which different anchor institutions can leverage their assets and revenue to benefit the local area. In terms of economic development. Anchors can act as purchasers, using local suppliers and producers; as employers, recruiting locally, and as incubators, supporting start-up businesses and community organisations. For example, universities can provide technological innovation and research expertise for local businesses and support the economy through student spending, and housing and hospitals can support local businesses through purchasing local goods and services, such as food, bed linen and information technology.

Although during a recession anchor institutions may be more inward-facing and less willing to engage in community support, it is difficult to imagine how towns and cities can recover without support from these powerful engines. The question is therefore how local government can engage with anchor institutions, aligning their objectives with goals for local social, environmental and economic development. This will require close collaboration between local government and anchor institutions and could involve local government forming an 'anchor network' or encouraging partnerships between anchors and public sector bodies, local businesses and community sector organisations.

Preston's anchor partnership

CLES has been working with Preston City Council to explore how anchor institutions based in the City can bring benefits for the local economy and community. Our starting point has been procurement spend and seeking to create a collective vision across institutions for undertaking procurement in a way which benefits the local economy. The supply chains of each of the anchor institutions (worth £750m pa) have been analysed with a view to identifying particular sectors where there are gaps in expenditure in the local economy and where there is scope to influence that spend in the future. Other initiatives include:

- Living Wage – Preston City Council has been a Living Wage employer since 2009. It seeks to ensure other organisations across the public, commercial and social economies pay their own employees. The principle of the activity links to community wealth in that it seeks to provide a fair level of pay for Preston residents and also ensure the circulation of income within the local economy.
- Move your Money – in recognition of the need to create a better financial system, Preston City Council has become part of the Move your Money campaign. This seeks to encourage communities to bank in a more ethical way. The Council has also helped establish a new credit union ('Guildmoney').
- Guild co-operative network – the council and its Social Forum supports worker led co-operatives and encourages other anchor institutions to utilise local co-operatives, most of which are engaged in front line provision around catering and building cleaning, for example.

There are further ways in which local authorities and other anchor institutions can enable community wealth. These include through municipal entrepreneurship in the form of local energy schemes or utilising derelict assets for new forms of service delivery or local authority enabled businesses.

Use of local authority assets

CLES and APSE conducted case study research⁴⁶ into the role that local authority buildings as anchors played in four localities: Ballymena; West Dunbartonshire; Southampton; and Neath Port Talbot. The work found that the use of local authority buildings offer significant potential to support better networking and closer working between different stakeholders in the local economy.

This work identified five key roles:

- Strategic. Local authority buildings are essential are spaces for the provision of shared services between providers in the public sector, such as local government and the health service.

They also bring providers together in a single space to reduce duplication in delivery and also reduce building management costs for the authority and partners.

- **Place.** Heritage is vital to our identity and to local image as buildings such as town halls and galleries may have archaeological, architectural, artistic or historic significance, contributing to the richness of local places and providing economic, social and environmental benefits.
- **Economic.** Local growth assets have an economic role as regards providing jobs and growth, creating businesses hubs and helping stimulate investment through private sector relationships.
- **Social.** Recognising the social value of local authority assets is important. These assets have a significant social role in town centres in that they provide cultural venues which enhance visitor numbers and they can be used by the voluntary and community sector. Local authority assets can be used as facilitators of new forms of ownership or community management, spaces for voluntary and community sector organisations; and spaces for 'meanwhile' use.
- **Environmental.** The environmental role of local authority assets must not be overlooked. They can be the basis for public realm improvements and new energy schemes. The size and scale of public sector assets means that they can be used as sites for new energy schemes, such as renewable energies such as solar or wind. As well as creating renewable sources of energy, this can also bring economic benefit through in the form of local supply chain and employment opportunity.

Housing providers have become key anchor organisations. They have long-term investments and an in-built social purpose and a community presence. As such they have the potential to influence the lives of some of the most vulnerable in society. Indeed, a growing number of housing associations see social development as both their role and responsibility – working with local authorities, businesses, the third sector and others to bring about sustainable improvement and create opportunities for the locality as a whole.⁴⁷ As such many have branched out into wider neighbourhood work, whether it's tackling worklessness, promoting enterprise or supporting health initiatives. Some have also entered into new collaborative agreements with local authorities. According to the National Housing Federation: "Regeneration is literally in the DNA of many urban housing associations. If they don't do regeneration, they have lost their social purpose. However there are risks which we need to be realistic about but there are also opportunities. Many housing associations are thinking creatively bringing their development pipeline, asset management and community investment into a more joined up, and viable regeneration programme that can deliver a greater social return on investment."

Oldham's neighbourhood agreement with REGENDA

An ambitious plan to revitalise an Oldham estate has seen a pioneering agreement between Oldham Council and the housing provider Regenda.

Regenda has been working on a 10-year, £5m vision for a small estate in Oldham- Limehurst Village for almost a year, looking at ways to deliver on residents' wishes to improve the environment,

housing, recreation and employment opportunities.

A Neighbourhood Co-operative Agreement between the Oldham Council and Regenda was signed to agree shared ambitions for improvement and success. It includes looking at key ways to work together to:

- Find innovative ways to improve quality of life and opportunities for local people
- Make a real contribution to Get Oldham Working through innovative employment and enterprise action
- Focus on wellbeing and health through working together with health partners and local residents

A series of key themes have been identified that will support the development of Limehurst and neighbouring Hollinwood, including:

- Collaborating on bringing new opportunities for work and training to Limehurst, via the Get Oldham Working project around enterprise, employment and new business creation
- Jointly developing an active sports and wellbeing programme in the village
- Unlocking the potential to develop land in Limehurst that is owned by the council

Conclusion

This paper has provided a brief overview of recent approaches to local and regional economic development (good and bad) and offered a critique of some of the problems surrounding the current fashion for market-led approaches based on agglomeration in "cities of growth". It has also discussed some of the key issues concerning the push for devolution and what the next phase may mean for local economies, not least in regard to places having the resources and capability to deliver new delegated functions and services.

The contemporary debate around devolution presents local government with a key opportunity on two counts. First, it provides an opportunity to obtain sources of power and resource from central government. With this will come the ability to shape and frame key local activities around housing, skills, and transport, for example and subsequently grow local economies. Second, and more importantly it provides local government with a key opportunity to challenge the orthodoxy of the way in which local economic development has been undertaken over the last 30 years and develop approaches which bring a double dividend in economic and social terms.

In this paper, we argue that the trickle down economic approach of successive governments and the current Coalition Government have not brought the degree of economic and social benefit which they should have done. Looking right the way back to the Urban Development Corporations of the 1980's through to the RDAs in the 2000s, and the contemporary LEPs; we can see that wealth creation has always come at the expense of inequality. As a nation, we continue to have problems around worklessness, low skills levels, low productivity and worryingly entrenched poverty and deprivation.

Against a backdrop of continued austerity and deep rooted socio-economic inequalities between and within places the paper has tried to place the spotlight on the often overlooked social dimension to prosperity. Whilst recognising the importance of boosting local productivity and improving economic efficiency and acknowledging the huge influence of macro-economic trends on local growth, the paper highlights the value of social investment, social capital and social networks. Indeed, we argue that social factors are key to economic success and that local communities should be aiming for a double dividend, not merely higher local GVA per capita.

The paper offers a prospectus for an enabled local state to advance a double dividend, embracing both economic and social success. In this way it both highlights the importance of a redistributive central state, alongside an enabled and more socially active local set of policies and actions. In this we suggest there are six key components to an approach which enables a double dividend to be achieved:

1. Through utilising social capital and the existing public, commercial and social sector networks which places already have in place;
2. Through promoting business citizenship and investment;
3. Through harnessing the potential of procurement spend;
4. Through stimulating the local labour markets;
5. Through utilising the internal capacity of place and enabling community wealth; and
6. Through realising the role and power of anchor institutions with a significant stake in place.

There is, of course, much work still to do in enabling local government to act differently with other public, social and commercial players. At the centre of this is appreciating that local communities, people and society are not just downstream recipients of economic success but active upstream participants of a system which creates success in the first place. Social success in this instance, is less a mere consequence of economic development action, but as something which feeds into, sustains and creates a virtuous economy for all.

Notes

Notes

- 1 Agglomeration economics is where the benefits of proximity and concentrated networks of policymakers, companies, consumers and workers stimulate economic growth. Therefore the focus is on the larger cities, as this is where there is greater likelihood of smaller supply chains, cost reductions and increases in productivity take place and where the potential for profit attracts ever more investment capital.
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The Smith Institute

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