
Mainstreaming Community Economic Development



Localise West Midlands

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About Localise West Midlands

Localise WM is a thinktank, campaign group and consultancy promoting local supply chains, money flow, ownership and decision-making for a more just and sustainable economy. It has been working on the practice and policy of community-scale economics for ten years.

About the funder – Barrow Cadbury Trust

The Barrow Cadbury Trust is an independent, charitable foundation, committed to supporting vulnerable and marginalised people in society. The Trust provides grants to grassroots voluntary and community groups working in deprived communities in the UK, with a focus on Birmingham and the Black Country. It also works with researchers, think tanks and government, often in partnership with other grant-makers, seeking to overcome the structural barriers to a more just and equal society.

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1.0 Introduction

Mainstreaming community economic development is about how we enable the success of this form of economic development to be scaled up into mainstream economic approaches. Despite the success of thousands of community economic development initiatives in generating livelihoods, social benefits, vibrancy and local distinctiveness, it remains seen as 'niche' and irrelevant to the real economic development game.

1.1 About this project and its rationale

This project came from the experience of Localise WM and its associates that has suggested that approaches to economic development that concentrate more on 'locally grown' enterprise, supply chains and investment are more successful in creating wellbeing and social justice.

Our starting premise was that the UK economy, one of the most centralised in Europe, is increasingly recognised as remote from people and society, unequal, exclusive and beyond the control of people in localities. In a more diverse, localised economy¹, more people have more of a stake, which redistributes economic power, reducing disconnection, inequality and vulnerability to 'too big to fail' institutions.

We had found that research addressing such economic solutions tends to deal with development of micro-projects, treating community economic development as marginal to the mainstream. Instead, with this project we were keen to explore how community economic development and stronger local economies could be integrated into the macro and mainstream economy: the conditions needed for local economies to be built around SMEs, social enterprises and community groups with support from public sector and larger private companies; and what is needed to ensure that this can become the 'usual' approach of economic policy at local, subnational and national levels so that the greater redistribution and diversity impacts of localisation approaches can be maximised.

Localise WM has a ten year track record of facilitating economic localisation, with projects around procurement, local enterprise partnerships, planning, housing, asset transfer and green new deal activity. From this experience we have identified a number of initiatives from the public and private sector (including some large companies) that have adopted approaches based on growing the local economy through developing local supply chains, businesses and skills. Some have specifically sought to maximise the benefits to the local economy. All have had some success in achieving far greater benefits than individual projects. All have faced considerable barriers to their approach and have had various degrees of success in overcoming them. These provided a basis from which to learn about mainstreaming what works and enabling what could work better.

From this and other parts of the research we hope to be able to produce an evidence base for:

- a) Continuing accepted good practice in the more familiar areas such as maximising the local returns from procurement;

¹ economies that are more decentralised and diverse, have more local ownership and a higher local multiplier¹; with an emphasis on local supply chains and local market opportunities.

b) Policy and other proposals in all sectors to overcome identified barriers and ensure strategy can be appropriately centred on Community Economic Development (CED) and localisation approaches.

Although the research is centred on West Midlands case studies, its findings are intended to be relevant across the UK, wherever leaders want to see economic development serve social and economic wellbeing.

1.2 About CED and localisation

In this project, for the sake of convenience and to draw attention to the two approaches' close links, we have used one term, Community Economic Development, to encompass localisation and CED approaches. Their distinct definitions as we understand them are as follows.

We define **economic localisation** as *"economies that are more decentralised with more local ownership and / or control; with an emphasis on local supply chains and local market opportunities"*. This is essentially the approach Localise WM has been promoting over its ten years with the aim of a more just and sustainable economy.

We define **community economic development (CED)** as economic development led by people within the community and based on local knowledge and local action, with the aim of creating economic opportunities and better social conditions locally.

There are differences in how CED is defined and understood across the world; being a more developed concept in Canada and the USA than it is in the UK. The Canadian CED Network's definition makes it clear that it is a holistic and strategic community-led approach rooted in local knowledge, incorporating social, environmental and economic goals (see literature review introduction). Many of the Network's case studies reflect this strategic approach.

By contrast some in the UK see it in terms of individual small community-based schemes, almost synonymous with 'social enterprise': IDEA define it in *Smarter CED* as *"a broad term that seeks to cover a variety of 'bottom up' community enterprise in the not-for-profit sector"* and go on to describe a number of community or social enterprise good practice studies². Others seem to share this view (see literature review introduction). Such projects are then easy for many mainstream economists, focusing more on inward investment approaches, to dismiss as nice but too small to have any real economic impact. So although we consider their collective impact highly valuable and worth replicating we have not considered individual case studies of small-scale community-run schemes as part of our review except where they have wider significance, as this research is intended to demonstrate how community economic development can be scaled up to a level where it delivers, and is perceived to deliver, significant economic and social impact. For example; studying a community-owned shop may not add value to this research; exploring policy options to encourage such shops across the UK would; but so would exploring how to support local innovation amongst firms whose key decision-makers are locally based and engaged with the local economy.

In this research CED is considered as part of a range of economic localisation approaches. This is because we consider (and this is explored in many parts of the literature review) that

² [Smarter Community Economic Development](#) – see literature review for full reference.

economic development can be 'community-based' either by forming community organisations with social objectives, or by that community's participation as owners, investors, purchasers and networkers. We were also keen to explore both 'purposive' localised and community economies, and non-purposive - where an economy with a high proportion of locally owned business has developed organically, and which will always form the majority of the types of economic activity that form an alternative to centralised and remotely owned economic development.

CED contributes to sustainable development by its focus on community-scale economic power, meeting local needs through local enterprise, and reducing travel distances. It frames economic development within the context of local resources, increasing awareness and efficiencies in how these are used, with local and global environmental benefits. While economic development's relationship to environmental limits is beyond the scope of this project, realities of resource scarcity cannot be ignored for their impact on social justice and wellbeing. So the findings of this research will contribute to the sustainable development debate and we hope will be seen in its context.

Finally of course healthy economies are likely to involve a mix of scales and linkages, and our objectives here are not to replace one economic bias with another, but to consider how integrating the localisation approach into decision-making, and considering the local options on their merits alongside more conventional centralised options, could contribute to an economy that is more successful in creating widespread economic inclusion.

1.3 About economic centralisation

The UK has an increasingly centralised and globalised economy in terms of both economic development power and business sizes; trends also evident globally.

The domination of UK household energy supply by the 'big six'³ and of grocery retail by the 'big four' are good examples of this economic centralisation. Six big companies supply 99 percent of our households' energy and own more than two thirds of our power stations⁴. The "Big Four" had a combined share of 76.4 percent of the UK grocery market in January 2012⁵; up one per cent on the year before. There is also 'big four' or similar dominance in other sectors including publishing and accountancy. The high street demonstrates how chains have begun to dominate over the last decades, including bank branches, booksellers, pharmacists and grocery shops⁶. Curiously, it is on the basis of orthodox rhetoric on the importance of competition that the truly competitive diversity of smaller commercial organisations is wiped out. Others have highlighted the homogenisation of global culture brought about by a few large companies selling the same products globally (see literature review section 4). There are more examples of this reduction in economic diversity and increase in centralisation within our outlines of the food and retrofitting sectors below.

Meanwhile, most measures also recognise a trend towards increased wealth and income inequality over a generation, which runs alongside the trend towards a more centralised

³ reported in IPPR report, [The true cost of energy: how competition and efficiency in the energy supply market impact on consumers](#)

⁴ http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/RMR_FINAL.pdf, p5

⁵ Source: Kantar Worldpanel (12 weeks to 22 January 2012)

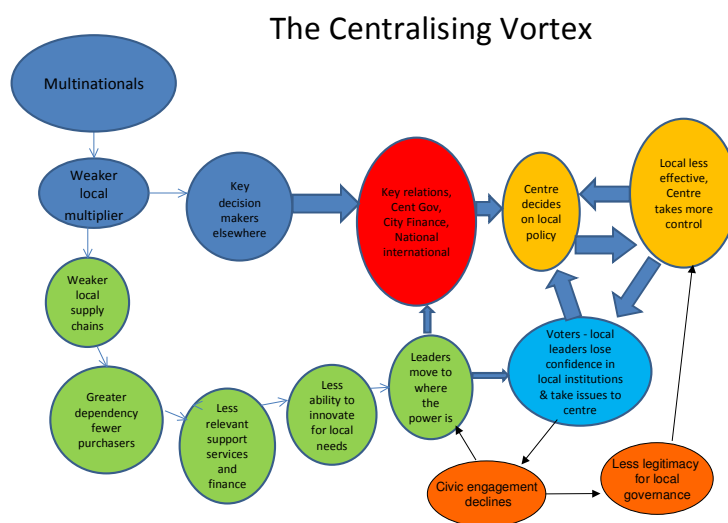
⁶ Clone Town Britain (Simms et al, 2005)

economy. This seems to reflect the increasing concentration of ownership of economic assets in fewer hands. The gini coefficient measure of overall income inequality in the United Kingdom is now higher than at any previous time in the last thirty years⁷.

Many make the link between this growth of inequality and economic centralisation: *The Spirit Level* (Wilkinson & Pickett, 2010: see literature review section 2b), conclude that it's "hard to escape the conclusion that the high levels of inequality in our societies reflect the concentrations of power in our economic institutions". Developing this potential causality further, *The Cost of Inequality* (Lansley, 2010, see literature review section 2b) presents the idea that this inequality has its basis in "a form of capitalism that prizes shareholder value above all other costs (including the long-term interests of the business let alone the general public good) [and] incentivises mergers between companies (followed often by asset stripping)".

Centralisation tendencies are also evident in economic development priorities, where attracting inward investment becomes the paramount concern. Neil McInroy of the Centre for Local Economic Strategies has been heard to use the colourful phrase 'local authorities prostituting themselves for inward investment' to describe the impacts this attitude can have on a local area and its people⁸. The subsidies given to inward investment seem to be awarded without full analysis of comparative benefits of that spend if it were directed to home-grown enterprise of a variety of scales. There are a number of cases where collective incentives for inward investment have added up to more than the benefits the relocating company brought (see literature review section 1d).

This economic imbalance partly follows the centralisation of governance in the UK - well documented by Simon Jenkins in *Big Bang Localism* – and which has not been overturned by the current government's localism agenda, any more than it was overturned by New Labour efforts at localism following the 1997 election. One could ask how localism can have any meaningful impact when economic power is so centralised. Corporate dominance of the economy and centralised decision-making seem to be mutually reinforcing as demonstrated in the diagram below – something supported in our literature review.



⁷ <http://www.poverty.org.uk/09/index.shtml>

⁸ CLES Creative and Collaborative Economic Development workshop for Regen WM, January 2009

Concerns over some aspects of this imbalance in who benefits from the economy and its impact on wellbeing have been prevalent across the world for decades. Since the 2008 crash and raised societal awareness of income equality, mainstream economic commentators have begun to take note. This quotation from Professor Gary Hamel, described by the Wall Street Journal as the ‘world’s most influential business thinker’ is illustrative:

“Capitalism has become more and more centralised...and as power becomes centralised, ordinary individuals feel as if they have less and less influence over critical decisions...and that when decisions are made, they are not responsive to local situations and local needs”⁹.

Other relatively conventional sources have also been more questioning of economic orthodoxy: the Financial Times ran a series in 2009 on “The Future of Capitalism”, subtitled “The credit crunch has destroyed faith in the free market ideology that has dominated Western economic thinking for a generation. But what can – and should – replace it?” and a second series on “Capitalism in Crisis” – its “legitimacy, weaknesses and potential reforms” - in 2012¹⁰. With funding from Soros and others, the Institute for New Economic Thinking (INET) was founded in 2010¹¹, charged with sponsoring academic research into the fundamental shift in economic thinking needed to overcome the deficiencies in ‘our outdated current economic theories’. Charitable funders have also seemed more willing to fund work on investigating and tackling the root causes of economic injustice and questioning economic orthodoxy than before the crisis; hence this research project becoming possible as a contribution towards such thinking.

The economic conditions relating to centralisation and local supply chains are of course different in different sectors. In the case studies we carried out for this project we concentrated on just two sectors. These were ones of which we had particular knowledge and good contacts and ones that demonstrated different features. They also had a good potential for localised approaches as well as having innovative initiatives occurring within the sectors. The next two sections explore the economic conditions in our two areas of focus – food and retrofitting.

1.3.1 Food sector

The food and drink supply chain is highly sophisticated and integrated. However, it continues to evolve rapidly.

Before the industrial revolution food demand and supply chains were largely UK based. Whilst livestock was walked from Scotland, Wales and the South West to London, other foodstuffs were mostly produced, processed and consumed locally. With the development of quicker, cheaper and more efficient bulk transport this started to change, with commodities such as wheat (USA), beef (Argentina) and tea (India and China) being transported around the world. A particular feature that developed during this period was the ability to import new and more effective fertilisers in bulk from around the world.

⁹ Prof. Gary Hamel on Radio 4’s ‘In Business: Crunching the Crisis’ on 25th August 2011

¹⁰ <http://www.ft.com/indepth/capitalism-future> and <http://www.ft.com/indepth/capitalism-in-crisis-in-2012>.

¹¹ <http://ineteconomics.org/>

Immediately before World War II UK production only provided 36% of the food consumed (compared with 60% in 2008)¹². In the 1950s most farms in the UK were still supplying a local and regional supply and demand chains through local markets, abattoirs, etc. They were small and practised mixed farming as a way of managing the risks of fluctuating prices, poor weather and disease. They internalised many of the processes in order to minimise risk. Consumers mostly bought their food through locally owned and managed shops, that purchased most of their fresh produce locally, apart from goods such as corned and salted beef that could travel well. Catering was a relatively small proportion of trade and used the local supply and demand chains.

Post-war policy was therefore to maximise food production in order to be as self-sufficient as possible. It was hugely successful, largely because of the unforeseen technical improvements in farming methods, but also because of the price support policies that prevailed up until the UK joined the European Economic Community in 1973. The impact of the Common Agricultural Policy was to reinforce these policies, at least to begin with. The result was the start of the process of farm amalgamation, simpler cropping systems, and more organised and efficient supply and demand chains that tended to operate on a national basis. The banks played an important role in helping to finance this system, the effect of which was to reinforce these changes and increase the rate of change.

At the same time, the consumer side of the supply and demand chain changed rapidly from the 1960's onwards as people became wealthier and transport became easier. Supermarkets developed, offering a greater range of foodstuffs under one roof, that were cheaper, more consistently available and often of higher quality. Over time they took over the vast majority of the retail business.

Food processing also responded by growing in size and scale, becoming increasingly concentrated. To support the system, large-scale logistics operations developed.

With increasing wealth came more eating out and other forms of catering, so that this aspect now forms one third of all food consumed. As well as restaurants and pubs, hospitals, schools, prisons, rail and airline services all developed large scale operations, with international companies developing to service these.

A consequence of all of these developments was the gradual erosion of local and regional supply and demand chains, replaced almost entirely with national and global systems. Local and regional markets, distribution systems, buying groups, abattoirs, auctions and support services have almost entirely disappeared and were replaced by direct contracts with major firms, or passing goods through a small number of intermediaries. For example, McDonalds has direct contracts with farmers to grow Russet Burbank potatoes, a variety that no other company uses. Vestigial remains include Birmingham Wholesale Markets and a small number of abattoirs and butchers that source their meat from within the West Midlands. Interest in local food over the last decade has developed some new supply chains such as farmers' markets and box schemes, but these remain a tiny fraction of the country's food supply. Similar impacts on local and regional supply chains are seen in most other countries to different extents; in some, local food systems are either more closely embedded in culture or have been more protected by public policy.

¹² Food Matters: towards a strategy for the 21st century, cabinet office strategy unit, 2008

Seasonality and vicarious weather: Seasonality of produce makes it extremely difficult to supply fresh produce all the year round. To address this, companies have increasingly sourced fresh produce from around the world. An added benefit is that when produce is difficult to come by because of poor weather or disease, it can usually be sourced from elsewhere. These drivers have encouraged companies in the supply chain to increasingly become global in nature. For example, a number of the operations in the Vale of Evesham have horticultural enterprises in Spain and Mexico.

Global: Many firms at different points in the supply chain operate globally, whether they are producers (e.g. Banfords in the Vale of Evesham), processors (e.g. Tate and Lyle) or retailers or caterers (e.g. Tesco or Sodexo)

Commodities: As global trade increased, foodstuffs have increasingly been traded as commodities in global commodities markets. This extends to almost all foodstuffs. As an illustration, one might source as little as 20 tonnes of organic linseed for use in cosmetics through a spot market in Amsterdam and it might be sourced from Canada, the UK or Argentina.

There are now huge, international commodities companies that trade in food and drink. For example, Glencore has 9 percent in the internationally tradable grain market and 3 percent in the internationally tradable oil market.

Vertically and horizontally integrated: Competition has forced all parts of the supply and demand chain to become more efficient in conventional business terms (i.e. ignoring fuel and other resources efficiencies). Companies have grown much larger, but have also tried to capture parts of the market by integrating the supply chain vertically (e.g. dairy companies that have contracts with farmers, process milk in to products and supply supermarkets directly, or organisations like Cargills that have operations in different countries that produce soya and grain, develop feedstuffs for poultry, have (or buy from) poultry rearing units, and supply straight in to supermarkets and catering firms around the world). Horizontally integrated firms or groups will try to capture one segment of operations across several supply chains, such as the production of fizzy drinks.

Support, taxation and regulation: All parts of the supply and demand chain are heavily regulated, from producers to processors, retailers and catering establishments, including commodities markets and logistics operations. The impact of global companies means that in some instances the standards of one country get applied internationally, especially where vertically integrated chains operate. Similarly, taxation arrangements apply throughout.

There is state support for production in many countries throughout the world. In the UK this is through the Common Agricultural Policy, but has been available in different guises since World War II. Axis 1 payments support production directly, Axis 2 supports measures to improve the environment and Axis 3 payments are for rural economy measures, including action to support the development of supply and demand chains. The Leader Programme (Axis 4) has focussed on small, place-based measures to improve rural economies as part of a sustainable development approach, including food and drink businesses and their supply and demand chains. It is the only support programme that takes a community-centric approach to

agriculture, and its relative size (5.1% of the England Rural Development Programme¹³) gives a good measure of how important it is seen to be. The rest of UK agricultural policy tends to reinforce the market trend towards large-scale farms and practices, and the country has seen a loss of small farms and related rural businesses over this period which has increased rural poverty and exclusion.

However, support programmes and intervention for processing and sales has been much less focussed, being part of general regional or local support to, say, rejuvenate a depressed area, such as Digbeth in Birmingham. Therefore there has been less of a focus on supporting the development of supply and demand chains, and their networks, than on individual businesses.

1.3.2 Retrofit sector

Building retrofit is work to improve the energy efficiency or onsite generation capacity (or both) of existing buildings. It has traditionally been part of normal construction repair and maintenance activity, but with growing concerns about reducing CO₂ emissions and government policy initiatives to improve the energy efficiency of homes, the sector has grown rapidly with companies specialising in designing and installing energy efficiency measures in buildings and particularly housing.

Government interventions: Prior to 2008 the main emphasis of government policy to encourage energy efficiency in homes was linked to reducing fuel poverty. Then the 2008 Climate Change Act required greenhouse gas emissions to be cut by 80% by 2050. Domestic property accounts for about 27% of all emissions and became a major target for action. One outcome of this was to greatly increase the requirements on energy companies to create energy savings in domestic properties. Two new schemes were introduced in 2008: the Carbon Emissions Reduction Target (CERT) and the Community Energy Savings Programme (CESP). These two schemes are expected to have invested almost £6bn in improving the energy efficiency of homes between 2008 and 2012.

In 2010 the Government launched the Feed-in Tariff. This provided a guaranteed income to owners of photovoltaic (PV) panels for electricity saved from the grid for a 25-year period, as well as the occupant's savings from reduced electricity bills. It proved very successful, creating a large-scale increase in the numbers of PV panels fitted to houses and large falls in the costs of purchasing and fitting such panels. In 2012 the Feed-in Tariff rate was heavily cut. This resulted in a large fall in installations and threatened the viability of many companies that became involved in the work if they had not started to diversify before the end of 2011. The Feed-in Tariffs were to be supplemented by the Renewable Heat Incentive in early 2012. This provides a similar tariff incentive for the fitting of alternative forms of property heating. While this was introduced for non-domestic property at the end of 2011, the scheme for domestic property has been delayed until at least the summer of 2013.

The current government's flagship scheme is the Green Deal. Under this scheme property owners will be able to have energy efficiency improvements carried out to their home at no initial cost to themselves. Instead they will repay the costs by a charge on their electricity bills, which in theory should never exceed the savings on the energy bills that result from the works. This will be based on modelled rather than actual savings. Where the modelled savings show

¹³ *The Rural Development Programme For England, 2007-2013*. 6. Financing Plan. Table 6.2.6 Total Public Expenditure: Summary Table <http://www.defra.gov.uk/rural/rdpe/what-is-rdpe/programme/>

that they are not sufficient to cover the costs then subsidy will be available to fill the gap funded from the new Energy Company Obligations; the replacement for CERTS and CESP. However there may be some instances where the actual savings will be lower than the modelled savings.

The Green Deal was launched in a relatively low-profile way in late 2012. There is no indication to date that it has produced the same uptake in demand that resulted from the introduction of Feed-in Tariffs.

The 'stop-start' nature of UK policy contrasts with the approach of Germany in particular. Germany started much earlier with work on encouraging domestic energy efficiency, and although they reduced their Feed-in Tariffs over time the scale of reductions was much smaller. Partly as a result of getting in earlier and having a more consistent approach, Germany has become the dominant Western country for the manufacture of energy efficiency goods and materials and is second only to China in the scale of its production.

Local initiatives: There have been a number of West Midlands-based initiatives to encourage the development of the housing retrofit market. In 2007 the Birmingham Strategic Partnership commissioned Encraft and Localise West Midlands to develop a small-scale retrofit project. This coincided with the first information on the introduction of Feed-in Tariffs. The project that was developed built on this prospect – using the Feed-in Tariff to incentivise and fund insulation measures - as well as attracting a number of other funding sources to run pilot schemes. It was then able to build up to a substantial enough scale to halve the costs the Council was paying for purchasing and fitting PV panels and to support the building of supply chains (mainly installers) in the local area. The scheme was taken forward by the City Council and became known as Birmingham Energy Savers (*BES*). It was able to make substantial returns on the photovoltaics it installed and this money has been reinvested in further works and further developing the programme.

Birmingham City Council had also supported a number of earlier smaller-scale pilots, including the Summerfield Eco Village which helped to develop local capacity.

As part of Birmingham Energy Savers, the Council publicised the scale of the potential programme to local businesses and agencies, encouraged them to get involved, and worked with local colleges and other agencies to develop training courses and to target training at excluded groups. It has also accessed EU grants to support the development of innovative technology and approaches to retrofit, and used this to further support the development of local supply chains.

The Feed-in Tariff reduction had already been anticipated by Birmingham City Council and so by the time the announcement was made, BES was working on how to maximise the local benefits from the Government's next initiative, the Green Deal. Under this, BES sought a partner to work with it on implementing the Green Deal in Birmingham. The partner would get support from the City Council in promoting it as the Council's approved deliverer as well as access in this stage to £300m of Council borrowing to pay upfront for work to customers' homes. The Council's credit rating allows it to borrow more cheaply than private sector organisations and thus the scheme should be cheaper to those going through the Council's approved partner. In return the partner will be required to maximise the use of local labour and supply chains, and to ensure the scheme is also targeted to excluded groups including

those in fuel poverty. The partner will not have exclusive rights in Birmingham as providers are approved nationally and other approved providers will be able to promote themselves in Birmingham.

There was a great deal of interest in the Birmingham scheme with a number of bidders entering into a lengthy competitive dialogue process. There was also interest from most other local authorities and housing associations in the West Midlands expressing in principle interest in being part of the BES scheme giving a potential value of £1.2bn.

Carillion were announced in November 2012 as the preferred partners, coinciding with the start of the Green Deal nationally. In addition to the other benefits Carillion have attracted an insulation manufacturing plant to move to Birmingham. In order to win the BES contract Carillion have had to change their approach to operate more like a decentralised local company with a strong presence in, and commitment to, the local economy. Eon, who also took part in the bidding process, have taken on board the commitment they made to employing people from excluded groups and have now mainstreamed it as part of their ongoing practice.

In addition to BES a number of housing associations have taken initiatives to support the development of the housing retrofit market in the West Midlands. This includes using local companies in their works to their own properties, encouraging the use of local labour from excluded groups and developing their own training centres to support this. Family and the Accord Housing Group have been particularly prominent, but many others have also been involved through the Sustainable Housing Action Partnership (a partnership of public and private sector housing organisations based in the West Midlands). This group has produced a number of reports on the potential of the retrofit market in the West Midlands and a report on how they felt it could best be delivered¹⁴. The emphasis in this report on the need for local knowledge and management has not been taken up by the Government its design of the Green Deal. This requirement has been identified in a number of reports but has only been addressed by the government in so far as it is encouraging approved providers to work with local community and voluntary groups as well as local authorities as these groups have a much higher level of trust than most of the providers themselves.

Under this model the role of these groups is to act as referral agencies to promote interest and then pass the details of interested households on to the main delivery agencies which will mainly be national organisations. The track record of previous attempts to promote energy efficiency to homeowners (with 100% grants in most cases) through national agencies has been poor; nevertheless the government is sticking to the model of mainly using national bodies to be the main programme delivers. By comparison the approach used with Feed-in Tariffs was far more amenable to delivery by smaller-scale, local organisations.

Maximising local benefits: The rapid development of the housing retrofit market has been largely driven by central government policy, although there has also been a more steadily growing market from individual property owners. The Government policy approach has been one of dramatic stops and starts; with a very strong tendency to adopt a 'one size fits all' national approach which favours delivery by national organisations. However in the West Midlands there have been strong attempts to maximise the benefits to the local economy by

¹⁴ The Community Green Deal: <http://www.shap.uk.com/projects/shap10/report/>

using the various government initiatives in ways that are most suitable to local circumstances. Birmingham is not the only council to have taken this approach. Coventry, Manchester, Kirklees, Northampton and a number of London local authorities are amongst those that have also sought to build local capacity and supply chains in the retrofit market.

Materials sourcing: The manufacturing of materials for retrofitting is an international market. Although there are some West Midlands manufacturers of boilers, combined heat and power systems and fittings the majority of materials and products is imported predominantly from China and Germany as well as Denmark and Sweden. There are ongoing attempts to bring manufacturing or assembly of higher quality products to the West Midlands and there is ongoing R&D into new more efficient materials and products which may become widely used in the future. However the economies of scale for the most efficient German plants for manufacturing photovoltaics requires a demand in excess of that of the UK in its entirety.

The above sections set out the context for the Mainstreaming CED research project, providing a brief summary of the UK's increasingly centralised economic development environment both generally and within our two sectors of focus.

1.4 Project stages

1.4.1 Literature Review

This first phase reviewed and summarised conclusions of existing literature on the potential of localised and CED approaches to deliver inclusion, redistribution and diversity benefits, in comparison with more centralised and inward-investment orientated economic approaches. It also summarised the literature's conclusions on barriers that exist to CED approaches. This stage of the process also gave us pointers to our case study priorities.

1.4.2 Case studies

This stage involved researching the experiences of those undertaking a localised approach by interviews and desk research, focussing on organisations and individuals whose contributions to local economy have been successful, or are frustrated; in order to identify barriers and solutions at local and other spatial scales, particularly nationally, and develop ideas for mainstreaming.

As the resources to undertake this work were fairly limited we have concentrated on looking at case studies in two sectors, food and housing retrofit.

We chose these sectors for the following reasons:

- We have built up considerable knowledge of and contacts in them over recent years.
- They are both sectors in which there are large numbers of small firms as well as large national/ multinational organisations playing a major role.
- Between them they encompass a range of economic characteristics: the food sector is more established and mature with its major relationships being through private sector initiatives. By contrast the retrofit market is relatively new in the UK and is heavily influenced by government and other public sector policies.

- In the West Midlands context, both are affected by local public sector initiatives that are ongoing (Birmingham Energy Savers and the possible relocation of Birmingham Wholesale markets); both of these initiatives will have region-wide rather than just city-wide implications.
- Both require significant amounts of the work involved to be done locally and therefore have strong local premiums.

In choosing case studies within these sectors we have sought to investigate good practice rather than typical activity. This good practice includes successful companies with good reputations for their commercial work and for taking wider, social, environmental and economic interests into account in their activities. For most of them this includes seeking to support their local economies and communities. We have also chosen case studies of organisations that seek to link supply and demand chains in the sectors and which link excluded groups to opportunities in those sectors. We have identified these organisations through our own knowledge of the sectors, supplemented by recommendations from those we have interviewed.

1.4.3 Finance report

We also investigated the financial context for localisation and CED in the UK (with any appropriate references to the West Midlands conurbation), with reference to research and other publications where needed, covering the barriers small businesses/organisations (including social and community enterprises) and supply chains face in accessing finance; the solutions to these barriers, including community finance; and issues around setting up and developing local finance institutions or mechanisms. This element of the research has also been incorporated into our findings. The Access to Finance report can be found at Appendix 2.

1.4.4 Workshop

A workshop was held in November 2012 to test and refine the emerging ideas and findings with a cross-sectoral group. The group consisted of economic development officers, policy-makers, budget-holders and people from each case study initiative, from the private, voluntary and public sectors. A summary was produced.

1.4.5 LWM consultancy evaluation meeting

Alongside formal case studies we held a roundtable session for LWM associates in July 2012 to consider their combined experience of aiming to implement a localisation approach, particularly relating to any impacts on social inclusion, income equality and local diversity and distinctiveness. These were incorporated into the case study findings.

1.5 Next steps

Following the production of this report and its summary versions, our priorities will be to disseminate the findings to people and organisations that stand the greatest chance of changing the way we undertake economic development. We will also evaluate the research project's impact and potential impact.

2.0 Results: evidence on the barriers and opportunities for mainstreaming CED

The MCED project consisted of five elements, a review of the academic literature, a set of case studies to explore issues around mainstreaming community economic development, a separate finance report and a workshop where emerging themes were tested and a meeting of Localise WM members and associates to discuss what their combined consultancy experience had taught them in relation to the research objectives.

2.1 Literature Review

The literature review was undertaken to examine whether CED, localised ownership and supply chains create more social and economic inclusion, diversity, local distinctiveness and income equality than more mainstream, centralised economic development approaches. The full literature review is at Appendix 1.

The focus was primarily on identifying empirical evidence of such benefits, but it also reviewed some of the theories around the socio-economic benefits or otherwise of localised and community economic development approaches particularly where empirical evidence was difficult to find.

2.1.1 The terms we use

Community economic development is led by people within the community and based on local knowledge and local action, with the aim of creating economic opportunities and better social conditions locally. Economic localisation involves local ownership or control over economic activity, with an emphasis on local supply chains and local market opportunities. Our objective was very much to explore the two as different facets, the purposive and non-purposive, of a more localised approach.

The outcomes we are interested in are social and economic inclusion; income equality – (both distribution of wealth amongst individuals and also how wealth is distributed geographically); and diversity and distinctiveness. We consider diversity and distinctiveness to have value in their own right through contributions to sense of place and belonging, area quality, added interest and richness of experience in comparison to homogenisation. More practically, diversity means that there are more different products and services, organisational structures, types of work, roles, shapes and sizes of economic activity to suit a greater diversity of human beings, and increases resilience in comparison to ‘monocultural’ economic development. The concept is an economy in which, simply, more people have more of a stake.

2.1.2. Findings

There was less evidence directly around our socio-economic outcomes than expected, and a tendency to make assumptions on such impacts, but what can be concluded is as follows.

2.1.2.1 Benefits of localisation and CED

The review concluded that localised and community economies appear to deliver better than centralised on job creation, particularly in disadvantaged and peripheral areas, on resilience,

stability and economic returns to an area, quality of life, security (for employees), civic welfare, civic participation, local economic power, accessibility of employment opportunities particularly for people who are vulnerable to economic exclusion. The role of social enterprise (a CED tool) in addressing areas and communities of disadvantage was also well documented. All this has a potentially positive impact on inclusion and equality.

While it seems that more centralised large-scale approaches can have the advantages of bringing extra resources and powers that will make an immediate difference, it seems likely that they can undermine the local virtuous circle and long-term prosperity of a local economy, potentially contributing to the social segregation and inequality that have been seen to develop in centralised economic environments.

The review was less conclusive on some other issues including the impact of localised and community economies on accessibility of goods and services. Localised economies seem to increase physical accessibility – for example in accessible high streets, markets and the survival of small local shopping centres - but point of purchase costs may be higher in some cases, leaving aside the issue of externalised costs. It is clear that centralised retail has reduced high street diversity and product ranges, and there is some evidence of a positive impact on product diversity when industries have a revival of local and small-scale enterprise; but more research is needed around this.

It was also less conclusive on direct income equality impacts. There was evidence that centralised and remotely owned economic development deliver better pay and formal conditions than localised economic development, but also that regional income disparities can be exacerbated by Government economic development spending based on over-estimates of benefits from any resulting inward investment.

But empirical evidence around income equality itself is lacking and other implications on income equality are largely conjecture. For example in most, though not all, economic sectors, it does not seem feasible that small businesses' profit margins can support anything like the 100:1 income differentials found in the largest firms; and while larger businesses may help raise the income share of those at the lowest end of the scale in an area, their higher executive pay rates will increase societal income inequality at the same time. It remains persuasive that a model of economy which is driven by remote shareholder value above business longevity, which encourages mergers and their resultant labour-shedding, and which concentrates economic power in few hands, is likely to create more income inequality than a decentralised economy driven by local profitability, with local or employee ownership and with the priorities of local economic decision-making. But little evidence is available, and centralised and decentralised approaches can both vary in their impacts on income equality.

There is also little empirical evidence assessing public subsidies of different approaches for their proportionate socio-economic impacts, so that policy on public subsidy seems to pursue centralised, large-scale economic activity based on assumptions without considering options around the collective impact of more small-scale activity.

2.1.2.2 Conclusions on the impacts of CED

Whilst many evidence gaps remain, given the proven benefits of community economic development and localised economies, we need a revaluation of how we balance and integrate

localised and centralised economic approaches in economic development practice and policymaking, if they are to tackle socio-economic objectives. Localisation and community economic development approaches have long been seen as secondary to the 'main business' of inward investment seeking, centralised strategies; in self-fulfilling prophecy style, this has governed the resources, attitudes and powers that have been directed to them, and thus the results they can achieve.

So we should seek to ensure that different options are fully considered as part of decision-making and used when they are the best option; and to work on models and policies that ensure the benefits of CED are maximised, and any potential disbenefits minimised.

2.1.2.3 Making it work – lessons for economic development

Unsurprisingly perhaps, the literature suggested that whilst CED has a valuable contribution to make to socio-economic outcomes, as with conventional economic approaches it needs to be assessed on its merits in practice. For example, CED activity should be assessed for its socio-economic outcomes rather than using, say, small business development as a proxy indicator.

Key to a successful local economy is the ability to make economic and political decisions locally along with effective public/private sector working. Also key is good understanding and innovation around how businesses interrelate: both the networking of small businesses and linkages with economies that transcend the local; and 'bridging capital' (open to other areas, well networked, inclusive) and 'bonding' capital' (bringing together different stakeholders in the area to act in unity). Local business networking can provide the benefits of scaled-up product and service offer – and sometimes efficiencies - while maintaining the benefits of local autonomies and diversity.

Effective strategies are likely to involve incorporating conventional economic development, local sourcing and CED approaches more closely. Conventional economic development should seek the opportunities that a CED approach brings, becoming more open to community influence, more sensitive to local needs and resources and better incorporating socio-economic goals into its decision-making. Public and private sector bodies should enable and respond to CED approaches. CED approaches should become more strategic and focus primarily on the mainstream economy delivering their goals; and local sourcing initiatives should incorporate CED objectives to avoid the potential for exclusive approaches.

2.1.2.4 Gaps and where more work is needed

The review highlighted that more academic work is required to understand:

- The impact of localised and community economies on accessibility of goods and services
- Direct income equality impacts of CED and traditional economic approaches
- The comparative socio-economic impacts of public subsidy of more and less locally rooted development
- The impact of different local approaches to economic development in similar areas over time, by means of UK based longitudinal studies.

2.2 Case studies

Informed by the literature review findings, 15 case studies were selected from two sectors relevant to the urban West Midlands, five from the relatively mature food industry and seven from the new and emerging energy retrofit sector: see Section 1.3.1 and 1.3.2 for further details about these sectors. In addition, and in tandem, two case studies were undertaken with economic development officers and one from Birmingham Airport to illustrate a more traditional approach, but within a locally based organisation. The case studies were identified from known good practice but also picked to get a balance between initiatives with social objectives and purely business focused activity that nevertheless has a good social impact, values or both.

Name	Case study	Sectors	Role
Janet Lock	Sandwell MBC	Food, Economic Development	Economic Development
Louise Pickford	Heart of England Fine Foods	Food	Business Development Manager
Melanie Weaver	Birmingham Airport	Airport	Sustainable Development Officer
Rosie Edwards	Sandwell MBC	Food, other	Poverty Officer
Matthew Rhodes	Encraft	Energy retrofit	Director
Dan Carins	Think Walsall	Economic Development	Economic Development
Tony Deep Wouhra	East End Foods	Food	Chairman
Darren Gardner	RETA	Energy retrofit	Independent Consultant (interviewed in relation to RETA)
Dave Allport	Birmingham Energy Savers	Energy retrofit	Programme Manager
Dave Terry	RESCO, AIM High	Energy retrofit	Business Director
Jenny Howarth	Buy for Good	Energy retrofit	Business Development Manager
Mark Clemson	New World Solar	Energy retrofit	Director
Paul Hutchens	Eco2Solar	Energy retrofit	Owner/manager
Richard Beard	Jericho	Energy retrofit, other	Chief Executive
Mark Tate and Eddie Price	Birmingham Wholesale Markets	Food	Chair and consultant

A framework (Appendix 3) was developed, using the literature review findings, to provide a consistent approach to the interviews and enable evaluation of the results, even though each interview had a particular focus around the project of interest. Each topic in the interview covered economic benefit, social inclusion, diversity and equality, challenges and opportunities. The topics were:

Supply and demand chains	Local supply chains
	Local demand chains
	Well-developed local supply and demand chains
Finance	Finance
	Capital
	Working finance
Employment	Numbers
	Availability locally
Skills	Skill types and levels
	Training
Business	Competitive advantage
	Resilience
	Product
Procurement	
Support services	Advice
	Research
	Local authority
	Planning
	Infrastructure
	Training
Local to national, mainstreaming	

2.2.1 About the case studies

Details of the case studies are in Appendix 4. Brief summaries are below.

2.2.1.1 Food

Birmingham Wholesale Markets are the largest integrated markets in the UK, comprising fruit and vegetable, fish, meat and poultry, dairy and flower sections. They are sited in central Birmingham, next to the city's retail markets, with an aggregate turnover of £275 million, comprising 73 trading operations and employing 1,100 people. They estimate that 15,000 jobs in the region are dependent on the markets. The markets occupy a very significant place in Birmingham's food supply chains: 95% of independent food businesses in the city - close to 5,000 independent food businesses - will do some business there: an extraordinary market share. Food access and employment for disadvantaged people are also particular strengths of the markets.

Sandwell Food and Drink Business Support Tool was developed to deliver economic and social benefits of healthy food production in Sandwell. It aimed to raise business profitability via innovation in terms of product development, skills and training, based on the production of healthy food and drink. In particular, it sought to increase the knowledge and skills required to

produce more healthy food and to stimulate the demand for healthy food options particularly from the most deprived sections of the community, by:

- Integrating health and poverty objectives into the Food and Drink Sector Action Plan through the beneficial impact of increasing employment and training opportunities.
- Ensuring maximum benefits for the local economy from the “Right Care Right Here” programme.
- Developing a systematic approach for food businesses to access support for innovation and growth

Heart of England Fine Foods (HEFF) is the regional food group for the West Midlands, promoting and supporting local food producers. It is a membership organisation with categories to suit producers, retailers, food service providers and businesses ancillary to the food industry. It works closely with members in each category to make sure the services it offers are developed with them in mind. HEFF seeks to find and create opportunities in supply and demand chains for its members to exploit, supporting them with research and development information, marketing and a distribution network.

East End Foods is a largely Asian food company, founded in the West Midlands in 1972 by the Wouhra brothers. It has grown to be one of the largest Asian food companies in the UK, employing more than 320 people. The company has always had a commitment to employment and business links in the area in which it is based, seeing this as of mutual advantage. They focus on manufacturing using local and imported commodities, wholesaling Asian food, and have recently opened a large cash and carry. They also export to 22 countries.

2.2.1.2 Energy retrofit

Birmingham Energy Savers is a major initiative of Birmingham City Council to take advantage of various central and EU schemes to bring about energy efficiency improvements in the homes and other buildings in Birmingham, in ways that maximise the benefits to the local economy through creating local supply chains, training and jobs. There are several phases responding to the different EU and Government schemes as they develop. Carillion Energy Services have been named as the preferred partner for the initiative.

The current phase of BES will see up to 60,000 households across the city given an affordable way of have their properties improved with energy efficiency measures such as insulation and new boilers by 2020, with payment recovered in instalments through energy bills. Other public and third sector organisations across the West Midlands expressed in principle interest in using the same partners and contractual arrangement, giving a potential overall value for the first stage of the work of up to £1.2bn.

Encraft: This is a growing independent consulting engineering firm specialising in microgeneration, on-site renewables & low carbon buildings, based in Warwickshire. They have designed web applications and project development tools to facilitate low carbon projects and these form part of their consultancy offer. They have a strong local economy ethos and a culture of developing new ideas: with Localise WM they designed what became Birmingham Energy Savers for Birmingham City Council. Previously they undertook a business support programme for AWM (former regional development agency).

While they employ less than 30 people they have a significant role in determining which companies get the contracts to deliver some of the projects they develop for other organisations. These can be worth hundreds of millions of pounds to the local economy. Their early involvement in the UK retrofit market and their ethos led to them help develop a number of successful companies in the local supply chains as well as providing them with links to their worldwide contacts.

RETA (Renewable Energy Technology Alliance): RETA is a Warwickshire-based alliance of businesses working together to develop the low carbon economy. It was initially supported by Coventry City Council. Its steering group also includes local academic and public sector representatives. Collectively the alliance offers product design and manufacture, system design, installation, servicing and maintenance; wholesale and distribution, employment and training, related professional advice and consultancy services. The alliance has helped address skills gaps, quality assurance, diversification and access to finance. It has helped create a local low carbon business mass in the area. One of its key roles is to help local SMEs win contracts with the large national/ multinational organisations operating in this sector which have their national headquarters in Warwickshire.

RESCO (Renewable Energy Supply Chain Opportunities): Resco is a partnership-based business support gateway that aims to get access for local companies to growth opportunities in the renewable technology supply chain. It is managed by the Institute for Environment, Sustainability and Regeneration (IESR), based at Staffordshire University. It includes public, private and academic partners. Services include market and capability diagnostic visits for SMEs, graduate placements and networking events.

It manages an EU funded programme (Aim High) which supports new products for the retrofit market. Its role is to fund initiatives to get these new products market tested. BES has linked to this programme to widen the range of retrofit solutions it can support and to help develop local supply chain companies.

Buy for Good: Initiated by a number of public and third sector organisations, Buy for Good is a non-profit organisation set up to award locality-based contracts and frameworks (purchasing agreements) that have a positive impact on the local economy by creating jobs and training opportunities in target communities, minimising environmental impacts and creating funding streams that are re-invested locally. Currently the service is for use by public and third sector organisations and removes the need for them to run their own EU compliant procurement exercise. They were the awarding body for the Birmingham Energy Savers (BES) contract. Founder members include Birmingham Chamber of Commerce, the Initiative for Social Entrepreneurs (I.S.E), Birmingham City Council and housing associations.

New World Solar: New World Solar supply and install energy-efficient and renewable technologies across the UK in domestic and business premises. The company is committed to building integrated local supply chains in order to help the region migrate towards a low carbon economy, understanding that local jobs contribute to robust and sustainable communities to mutual benefit. It has worked with social enterprise and public sector initiatives, including BES. Based in Chelmsley Wood, most of its customer base is within the West Midlands conurbation. From a standing start it has grown rapidly to a turnover in excess of £3.5m a year.

Eco2Solar: A Worcestershire-based, family-run business supplying and installing renewable energy installations for households and businesses. They have grown rapidly over the last five years. They have a formal policy to employ locally; their customer base and within reason supplier base tend to be local too, partly for value reasons and partly from practicality.

Jericho: The Jericho Foundation is a social enterprise in Balsall Heath set up to help disadvantaged people towards fulfilment and employment through various outreach, training and employment related activities. Its constituent enterprise sections are print and promotion, construction, cleaning, landscaping, catering, wood recycling and retail. Training is personally tailored to individual clients, with IT access and social activities included, and more than 50% move into sustainable employment or full time training when they leave Jericho. It has worked with many of the major construction companies working in Birmingham to recruit and support getting 'difficult to employ' people work ready and then into supported employment. In most cases this leads to long-term sustained employment with the construction company. Its construction enterprise is involved in retrofitting and Birmingham Energy Savers.

2.2.1.3 Other case studies

Think Walsall: A council-based initiative acting as a broker between local suppliers and subcontractors, and investors and developers in Walsall. It provides local businesses with the support and contacts they need to win contracts. It is primarily but not exclusively focused around construction. It works with developers at planning application stage and identifies the developer's supplier and subcontractor needs, then identifies and supports local companies to bid for this work. It also undertakes general promotion of Walsall trade for example by social media, business events and networking. It has aimed to get approaches that maximise the returns to the local economy embedded into council and other local processes.

Sandwell Anti-poverty Manager: Sandwell's anti-poverty manager was interviewed originally for the Sandwell Food and Drink Business Support initiative, but her experience of wider aspects of community economic development was also discussed. In partnership with other agencies, Sandwell's anti-poverty activities are around services which help residents maximise their income, provide education and training, develop local services in ways which support the local economy, improve neighbourhoods and local support networks, involve residents and provide services and facilities open and useful to all sections of the community.

Birmingham Airport: Birmingham Airport was interviewed partly as a contrast to our other case studies. It is an inevitably globally-orientated business, but also by its nature of a fixed location in Solihull and therefore has opportunities and an incentive to develop local supply chains. The airport creates demand by buying local and by developing partnerships with locally based businesses. Its Sustainable Procurement Policy encourages local suppliers, where applicable, and 40% of procurement is from firms in and around the airport.

2.2.2 Key results from the case studies

The results were analysed using the framework in Appendix 3 and collated to identify key issues, particularly those that could be investigated during the workshop. Identified themes were considered alongside those from the workshop and literature review and are presented in Section 2.6. Full details of case study interviews can be found in Appendix 4.

2.3 Finance report

The financial context for localisation and CED in the UK covered the barriers small organisations and supply chains face in accessing finance; the solutions to these barriers; and the barriers to and opportunities for setting up and developing local finance institutions or mechanisms.

The main conclusions of this were:

- The relative centralisation of the UK's banking market in contrast with many other countries' stronger banking diversity (between private, co-operative, mutual, municipal, postal and public forms of banking).
- Relationship-banking methods based on local knowledge and building trust led to more and efficient lending to small organisations.
- 'CAMPARI' criteria for lending decisions (character, ability, means, purpose, amount, repayment and insurance) make it more difficult for various 'good economy' organisations such as service sector, social enterprise, small ones, etc. to access finance
- In the UK, Community Development Finance Initiatives (CDFIs) have experienced a three hundred percent growth in lending since 2006 and exhibit good practice in providing housing retrofit finance.
- A Community Reinvestment principle (law in USA) requires transparency of banks' capital flows and leads to poor communities having more access to loans, strengthens the CDFI sector and could be useful in the UK.
- Recommendations for the introduction of development banking methods; the implementation of a more effective system of loan guarantees within mainstream banking to facilitate lending to SMEs.
- Recommendations for the development of a CDFI coalition and for the potential of harnessing low-cost capital programmes like Funding for Lending for CDFIs for small business loan to create thousands of jobs.

This element of the research has also been incorporated into our findings in Section 2.6. The finance paper can be found at Appendix 2.

2.4 The MCED Workshop

The presentations and list of participants can be found in Appendix 5.

The purpose of the workshop was to present the findings from the literature review and case studies, to test emerging ideas and approaches in small groups and to round up any conclusions. In addition the workshop was designed to promote collaboration, to bring together people who are active in different aspects of regeneration, development, food and renewable energy and to encourage synergies and new thinking.

Following presentation of the key research findings from the literature and case studies, participants were asked to consider the following questions:

1. Do you agree with the results presented so far?
2. How can we make sure that Community Economic Development delivers social benefits?
3. Mainstreaming – In a perfect world, what might a comprehensive, socially inclusive approach to localised and Community Economic Development look like and what helps it happen?
4. Characteristics of Community Economic Development success – What is the role of the following in making it work? What can we do to improve these aspects?
5. Things that we can do today – In a practical sense, what can we do to promote Community Economic Development?

2.4.1 Key results of workshop

Collated contributions from participants are found in the workshop summary at Appendix 5 and are summarised very briefly below:

- Participants agreed with most findings and that this reflected their experiences, both on the social benefits of CED approaches and on how these can be mainstreamed. There was general agreement and enthusiasm for taking the MCED approach further, and particular agreement on issues of trust and the importance of procurement solutions. The thinking about a collective supply and demand chain approach was endorsed, reinforcing that an area economy is not just about single businesses.
- There is growing knowledge of the limits of the inward investment approach; for example, acknowledging the strength of businesses in multi-ethnic areas because they are rooted in community.
- Regarding business support, Government's 'national call centre' alternative to Business Link was seen to be exactly the opposite of the locally responsive approach that is needed.
- Economic development work in local authorities was seen as often under-resourced and marginal, lacking the key linkages (both inside and outside the local authority) it needed to be effective. One of the problems for local authorities in doing more is that they have "over 1300 duties" without the resources to deliver all of them. Other local authority teams needed to see themselves as contributing to economic development. Staff in planning, social care, schools, procurement, engineers and regulatory/enforcement roles were mentioned as having key roles. There was seen to be potentially more of a role for local authorities in developing business networks but there was also a bigger role for other organisations such as Chambers of Commerce.
- Gaps identified included looking at more community-led initiatives, community led anchors, co-operative models and how they can interrelate with other parts of the economy and economic development; more linkage to community development work to sustain the community base for economic activity; locally specific recommendations and practical steps for the WM, perhaps based on local research including more typical case studies.
- Mindsets around boundaries and competing between areas is a barrier to strong local economies; particularly with new structures such as LEPs superimposed over the more democratically based local authority boundaries.

- There is a need to understand risk better in relation to small business, and how this can be better managed within procurement and other processes.
- Issues of trust are crucial to well-functioning localised economies, whether between people and businesses, businesses and local authorities, or between businesses themselves. Maximising trust and using co-operation effectively are important.
- Local procurement through large intermediaries is a minefield. Although it can be a solution it can also weaken local businesses in the longer term.
- Economic development changes are needed: taking a partnership and networking approach; other local authority teams seeing themselves as delivering ED.
- The benefits of the localisation and CED approach need to be much better articulated and communicated to different audiences. This will include more work on measuring benefits and risks.
- A follow-up session was also recommended to pursue taking the approach further.

2.5 LWM consultancy evaluation meeting

LWM associates met to consider their combined experience of aiming to implement a localisation approach, particularly relating to any impacts on social inclusion, income equality and local diversity and distinctiveness; and the findings of this too have been incorporated into Section 2.6 below.

2.6 Key combined project results on mainstreaming CED

From all of our research, the literature review, case studies, workshop feedback, finance report and LWM consultancy evaluation, the following seem to be the crucial factors for success in mainstreaming CED, translating it from a series of small individual projects to a more strategic and integrated approach.

2.6.1. Supply and demand chains

Successful approaches seem to focus on whole supply and demand chains rather than supporting discrete companies. The local multiplier provides an effective indicator of this approach's success: smaller, locally owned businesses have a greater local multiplier in the local area as a direct result of their being much more likely to be part of the local supply and demand chain, using locally based suppliers and contractors.

Local procurement tools such as 'Find Its' clearly have a role in building and supporting supply chains and were valued by interviewees, but going beyond this, developing networks and market intelligence were identified as important to link supply and demand (it is important to consider and influence the demand chain as well as the supply chain). The key networking agencies that identify gaps and link supply and demand - wholesale markets, abattoirs, project developers (e.g. HEFF, Encraft, Sandwell, Think Walsall) - are important, particularly for SMEs which need support to get into supply chains. Good practice networking organisations all try to act by intervening early, variously identifying opportunities, providing links, supporting development of individual organisations and the sector as a whole, providing market

information, improving standards and shaping the market for the sector. But funding for networking organisations, rather than just recognition by policy is scarce (*Sw*) as funders from all sectors often prefer to support organisations in the supply and demand chain directly.

There has been a lot of support for supply chain development and networking in the retrofit sector, initially from Encraft and then BES, first using Find It In Sandwell then Find It In Birmingham and Buy for Good. Public sector funding helped set up RESCO (Coventry CC) and RETA (EU).

LWM consultancy experience has also demonstrated that amongst social and community enterprises, 'gateway, enabling or infrastructure' organisations emerged which had a role in scaling up the impact of small local organisations & drawing down initiatives more locally, often in a 'hub and spoke' model. Some of these were official infrastructure organisations; others simply had a more established role in the supply chain than similar organisations for mission-related reasons and thus found themselves with a role in supporting others. In order to maximise community benefit it is important that infrastructure organisations maintain transparency and flexibility and seek collaboration rather than domination or competition in a very competitive environment.

The LWM consultancy evaluation also explored the role of planning in strengthening or weakening supply and demand chains. Physical regeneration projects, for example, can destroy existing demand and supply networks if account is not taken of the wider impact of the loss of businesses on those firms buying from or selling to them. Consistent, proactive policy frameworks were also found to be important in enabling a demand and supply chain approach, not only in planning, but potentially across a range of policy areas, including procurement and transport (Encraft, NWS, Eco2Solar; Levett – see literature review). For more on this, see section 2.6.4.

2.6.1.1 Food supply and demand chains

Many, but not all, food supply and demand chains are more established than those of retrofitting, but the remaining local supply and demand chains can be in danger of key links being undermined by public policy decisions – e.g. abattoirs and wholesale markets (*Sw*, *BWM*) – which makes it difficult to source food locally, and reinforces the extremely centralised trend in food supply chains. A wide range of interventions from regulation, to grants that have secondary impacts, development planning and control, infrastructure projects and procurement can all have an impact.

The role of the supermarkets was consistently identified as making it difficult for small and local producers, manufacturers and suppliers to trade and grow (*HEFF*, *EEF*, *Sw*), for example requiring high indemnity insurance levels for very small firms, breaking up contracts, etc. The catering industry and public procurement are also significant players in setting the conditions for local supply chains. The public procurement aspects of this are discussed further in section 2.6.3.

Birmingham Wholesale Market operates as an association, as a hub, with supplies coming in primarily from the West Midlands, but also elsewhere and abroad. It supplies 5000 outlets, 95% of independent food businesses in Birmingham. It works because it is highly efficient, but has shrunk over the years because farmers can get guaranteed prices from supermarkets and

large caterers through direct contracts, whereas the market prices vary dependent on different factors on the day. Much of the markets' produce is surplus that farmers can't sell elsewhere, meaning that prices and range of goods are very fluid. The challenge of local supply chains at Birmingham Wholesale Markets is mainly produce availability. Much of the growing region's produce goes directly into the supermarket and catering supply chains through contracts, and the markets were livelier before the supermarkets began to dominate supply chains. Supermarkets and caterers take the prime quality produce, but the markets do serve high quality customers such as Purnell's (a Michelin-starred restaurant in Birmingham) and occasionally supply supermarkets when stocks are low.

2.6.1.2 Retrofitting supply chains

Jenny Howarth of Buy for Good felt the renewables market supply chain is particularly volatile. Networks have not yet matured and many small organisations do not have the resources they need to develop; some are not good at communicating, so their growth does not get sustained; and some have gone broke.

Building supply and demand chains in this sector was acknowledged by organisations who were doing it to be hard work (Encraft, Buy for Good) because it takes time to identify and support firms to develop (see also section 2.6.3). But Encraft were important in the rapid development of both New World Solar and Eco2Solar. These in turn have used local supply chains and New World Solar set up a specific contract for PV brackets with a firm that specifically employs people with disabilities. They helped them design and produce the brackets which they have then continued to buy. Initiatives such as BES can and have created large markets by their service provision; they made local firms aware of these markets and helped them to compete for contracts. They have also through their procurement contracts required larger firms to subcontract to local firms. In creating contracts, BES separated out installers from component suppliers; this has enabled smaller suppliers (mainly assemblers or wholesalers) to become part of this supply chain, which is unlikely to have happened otherwise.

Jenny Howarth of Buy for Good thinks that although the frameworks they work with are probably not big enough to attract manufacturers now, they may be in future. Buy for Good operate on very limited resources. Their approach is to develop framework contracts with their partners which promote the use of smaller local companies. These frameworks can then be used by other organisations for a fee. In order to be viable and to grow they need the frameworks to have large turnovers so that they are then able to fund work in developing SMEs and the supply chain. This concentration on areas of work where there will be large spend also potentially provides large volumes of work for the local SMEs.

The introduction of Feed-in Tariffs and the work of Birmingham Energy Savers produced rapid growth in PV installation companies, of which Eco2Solar and New World Solar are two examples. This was further boosted by the work of a number of Housing Associations in the region and the work of the Sustainable Housing Action Partnership (SHAP), a partnership of public, private and third sector organisations working to make the West Midlands housing stock more energy efficient. There were early attempts to bring PV manufacturing to Birmingham but the global economies of scale for manufacturing proved too great. However as part of the Carillion contract with BES, Carillion will be bringing insulation manufacturing to Birmingham.

According to BES' manager one of the factors in its success was the early recognition that supply and demand were interrelated, with the same individuals sometimes being involved as part of the supply chain and as homeowners or landlords who wanted to retrofit their homes and the neighbourhoods in which they lived.

2.6.1.3 Stimulating demand (see also section 2.6.3 on procurement)

Stimulating demand for what local businesses can provide is often overlooked in economic development and can be done by corraling demand to create bigger opportunities. BES and major public procurement contracts are good examples of this. BES has used national funding streams to create local demand. It has ensured that local firms are made aware of opportunities in advance, and has worked with local colleges to ensure that training courses were put in place that would target training and recruitment of people from deprived neighbourhoods. Initially BES used funding from Government Feed-in Tariffs and its Decent Homes Programme for public sector housing. These were supplemented by large amounts from the Utilities companies' CERT and CESP programmes (part of their requirement to fund energy efficiency improvements) as well as funding from smaller EU and other UK government funding pots. On a smaller scale some local housing associations have taken a similar approach. The Accord Group has done most on this but they have also worked with other associations through SHAP.

These funding sources have now been replaced, ended or declined. Most of the new funding streams are less under the control of the local authority and dependent on individual homeowners taking up the schemes on offer. A large number of nationally approved providers will be able to sell these schemes to Birmingham householders directly. In response to this Birmingham City Council have carried out a preferred partner procurement exercise. The preferred partner will get the support of the city council to market to householders and access to the cheaper borrowing that the council can undertake. In return the preferred partner, Carillion, will use local supply chains, support local employment, provide higher work guarantees and bring in some materials manufacturing. Under the new approach demand stimulation is a challenge for BES: they have major suppliers on board but now need to increase customer demand for retrofitting (BES).

Organisations may just see creation of demand in terms of immediate procurement, and CSR objectives in terms of environmental reporting functions - Birmingham Airport reflected this to an extent. The benefits of local trading are implied, rather than being part of a strategic ambition to develop a demand chain that has wider economic and social benefits to the community. See also Eon and Carillion experience with BES for perceived benefits (section 2.6.3.5).

Sandwell has attempted to stimulate demand through public procurement, both through the PCT to deliver their "Right Care, Right Here" programme and through the School Food Programme. The latter was particularly successful, but changes in procurement policy mean that these benefits have now been lost (Sw). Local authority intervention in this way can stimulate demand for better nutritional food based on local supply chains. Think Walsall has plans to stimulate demand by bringing the intervention forward from procurement stage to design stage with its 'meet the specifier events' (see section 2.6.2).

Supporting business start-ups tends to be a major focus for many of the CDFIs. Castle Vale Housing Association (CVHA) helps local residents set up businesses by offering, where practical, small initial contracts with themselves. This gives them a shelter to help at the start-up stage, but after that they have to be able to compete effectively with other firms to win further CVHA business (*LWM consultancy evaluation*). Think Walsall considered that this was something that RSLs could do more to help their tenants on. If they do so there is the potential for them to learn from the good practice of CVHA.

2.6.2. Local knowledge, areas, markets and opportunities - recognising & building on local strengths

Local knowledge and understanding was a big factor in much of the evidence; with long-term relationships between organisations, individuals or communities, and knowledge of local assets, markets, suppliers, decision makers and opportunities being key factors.

Many of our case studies (Encraft, Jericho, the Wholesale Markets, East End Foods) demonstrated a commitment to their locality (see also section 2.6.10). Commitment to an area and the people who live in it helps create trust, which seems to be an emerging essential factor for a healthy local economy. This commitment was partly about employees' lives outside work; flexibility to let employees deal with family issues is much easier for everyone when employees are locally based, and creates strong support networks between colleagues in and out of work (Wholesale Markets, Encraft). Birmingham Airport also considers it has a stake in their local community, partly triggered by involvement of the local authority's 49% shareholding but also from the airport being more dependent on its local market than most companies of its size.

There are different concepts of community within our case studies. The wholesale markets' local community is partly its component businesses with a formal stake in BWFP, but also increasingly the retail market stallholders, shoppers and wider Birmingham public who supported their campaign to remain in the city centre. For others (e.g. Encraft), the area in which they are based and their core business networks (public and private sector) are their community. The local community may be a community of interest, rather than physically local e.g. East End Foods working with farmers from India as well as local suppliers.

East End Foods feel that this local commitment tends to be reciprocated on a UK scale, in that when value-adding is done in this country those doing the work will care more about the quality than if it were done abroad, and this offsets the wage costs for them in creating a more consistent quality of product.

LWM consultancy experience identified that short management chains are helpful to many successful businesses. They allow action to be taken and needs addressed quickly, building trust and collaboration in finding solutions. Skanska, a multinational construction company, seeks to have local control and thus local knowledge built into its major contracts. One example they give of the value of this is that it enables them to use local contacts and knowledge to recycle surplus building materials to local projects. This is not only good for their carbon reduction but also enables them to make substantial savings on landfill tax.

New World Solar, Eco2Solar and Encraft all saw it as important that their frontline staff had the ability to listen to customers and innovate in the way they delivered so as to keep the

customer happy. They saw this as much more difficult to do in large organisations with lengthy management chains. They regarded this ability to be close to the customer a key advantage of small organisations, which enabled them to innovate as organisations to meet specific customer needs and changing market demand.

Often following from this local knowledge and relationships was knowledge of local assets, markets and an ability and willingness to translate this into local economic opportunities. Think Walsall talked about “meet the specifier” events, developing on from the “meet the buyer” concept: inviting developers and architects to meet local manufacturers in order to see locally made or stocked products for which they can then specify and design. Sandwell and New World Solar both commented that food, fuel and finance are very easy to link in to the local economy.

Success also involves thinking ahead to new market opportunities, getting systems in place, initiating training & recruitment, and raising supplier awareness. Birmingham Energy Savers is a good example of this.

The workshop discussed the importance of local businesses trusting each other enough to collaborate; knowing when to collaborate and when to compete is essential in scaling up local economies. New World Solar gave examples of small companies working together to win and deliver contracts, and the need to overcome the fear of working with competitors. There was general support for these statements which were also reflected in the experience of Birmingham Wholesale Markets.

The role of personal relationships and trust, for example generating work through recommendations and local contacts, also came through in a number of the interviews with companies working in the retrofit sector (e.g. Encraft, Eco2Solar).

What we see here, when it works, is a very virtuous circle. In the retrofit market we see local companies working together, sharing knowledge, jointly identifying and winning market opportunities and recommending each other for work. We see the companies working flexibly with each other and innovating to meet each others’ needs; we see them in different and complimentary ways targeting the needs of disadvantaged groups and supporting each others’ aims of developing the local green economy. This requires mutual knowledge and trust for it to work, which needs to be constantly reinforced by working effectively together. We also see them supporting their staff, which brings them emotional capital from their workers, who in turn put in the extra effort when needed, and seek to provide the customers with good service which wins them more word-of-mouth business. They also take advantage of the networks their staff have locally to recruit new staff, to help win business and to identify subcontractors to work with them. Some (particularly Encraft) have wider national and international contacts and are able to use them to inform local best practice and to take advantage of wider trading and supply chain opportunities.

We also see the senior staff of such organisations engaging in local business networks and with local policy-makers. They are able to influence and inform local authority policy and practices (such as BES) to help to make them work better for the local context. What we also see is their inability to influence many local public sector bodies to provide the locally needed support services such as training, and business support where these organisations are largely controlled by distant central Government requirements. We also see their inability to

influence central Government retrofit policy and their complaints about both its 'stop-start' nature and the extent to which it is designed to meet the needs of big businesses rather than local firms or the customers. Similarly we can see the failure of the large multinational banking systems to be able to respond to their needs.

This provides a very strong example of the benefits of local public, and private sector joint working which the DORA report identified as crucial to effective local economies (see Bryden & Hart, literature review section 1a) as well as exemplifying the severe limits on such working in the UK.

2.6.3 Procurement

As one would imagine, public and large-scale procurement is one of the most-debated opportunities for developing strong local supply and demand chains, providing a great opportunity but with a number of challenges, both recognised by most of our interviewees and within a wealth of relevant sustainable procurement literature.

The procurement good practice referred to in this report is not the mainstream approach, but does provide models that can be adopted and built on to develop a norm of more beneficial local procurement.

2.6.3.1 Comparative costs of administration

From our workshop and case studies, one of the biggest challenges to large (public or private) organisations procuring from smaller and local organisations is that procurement exercises that are supportive to smaller local companies are usually more expensive to administer. It is more expensive for the public sector because there are a larger number of individual process and forms for contracting, invoicing and so on (hence the compromise model of procuring from a single large supplier but building in clauses to maximise returns to the local economy, as per BES and others; see section 2.6.3.6). If it is also part of a process to develop local businesses to take part in supply chains that are new to them, then it also requires more resources, time and effort because of the need for supplier engagement, more complex contracts and ongoing support pre- and post- contract.

Large private companies that adopt similar procurement approaches to the public sector will have the same issues around duplicating paperwork and processes. More generally though it was perceived that most larger companies tend to buy from limited networks of suppliers that they already work with, and see small companies as unknown and therefore inherently risky. They also tend to require smaller companies to adopt all of the paperwork, and accreditation that they are used to from larger companies. For the smaller local companies that we interviewed that were committed to the local economy the issue for them was the time involved in 'shopping around' small local suppliers who could only provide part of what they were looking for as opposed to going to a larger supplier who could provide it all. In general it was the extra time involved in local purchasing from smaller companies, rather than the cost they charge for goods and services, that was seen as a barrier.

There was general acknowledgement that the current climate makes it difficult for public bodies to get the resources needed for this more holistic approach directly through the procurement budget despite the greater need for the local economic benefits. This calls for

creative thinking, given that approaches that maximise local returns from procurement have significant potential for targeting areas of disadvantage. For a local authority the 'whole system costs' may look very different (i.e. the increased revenue and reduced costs to the council of a thriving local economy) and beyond our case studies there has been much work in the UK on how to take this fully into account¹⁵ and to instigate collaboration between procurement, community development and economic development teams. In fact there is also evidence that the local/sustainable procurement agenda is growing, Buy for Good being a good example. *"Cuts mean organisations have to think outside of their boundaries to find solutions. In general people are far more concerned with social outcomes"* (BfG).

The last six years have seen a major public sector push towards sustainable procurement (including maximising local benefit) at same time as even greater push to reduce the cost of each procurement exercise. The overriding pressure in the sector has been to minimise the time spent on each procurement exercise and to join procurement consortia which tend to let large-scale contracts that are unsuitable for smaller firms even if they would be better value for money, when the wider socio-economic sense are taken into account.

The new consortia of GP practices and Academy schools could be key organisations for developing local supply and demand chains in ways that would help achieve health and education outcomes for the schools and GPs and economic benefits for their areas. If instead these organisations use national agencies to provide their procurement and other support and otherwise let contracts in ways that take them away from the local economy this could be a major missed opportunity.

Similar pressures are experienced in the business sector: New World Solar, Eco2Solar, Encraft and Jericho all sought to develop local supply chains through procurement but stated that this often took more of their scarce time. They said that having information and infrastructure in place to support local purchasing would help them and make other firms more likely to buy local. Janet Lock from Sandwell commented that more data was needed on what is available locally, and some of our case studies, including Buy for Good, RESCO, Jericho and Think Walsall, undertake parts of this role. The case study businesses also identified that in buying local there were trade-offs to be made – for example where the non-local produce meets a higher environmental specification (Jericho); where going to a range of local suppliers takes longer than going to one larger company that can provide it all on one order; or where a less locally produced material meets the customer's needs more closely. Time to identify the local suppliers and range of goods provided was more frequently mentioned as a barrier to buying local than was cost.

2.6.3.2 Other barriers to local procurement

From the perspective of small businesses themselves, one problem identified by Dan Carins in working with Think Walsall was that businesses taking on subcontracts, particular since the recession, may have shed non-essential staff and be pared down just to the tradespeople (e.g. no marketing staff), so now have limited capacity to take up contract opportunities. Other local companies, including our case studies NWS and E2S, are of a scale to have these functions and so can have a role in subcontracting to the smallest companies. Lack of accreditation, or its complexity and multiplicity, is seen as another barrier (TW).

¹⁵ For example, see work by CIPFA <http://www.accountingforsustainability.org>

Added to the conscious drive for centralising procurement there were a number of comments (reinforced by LWM consultancy experience and much discussed generally) that most large public and private sector organisations shape their contracts around the structural characteristics of large organisations to be able to quote or tender, not with the intention of excluding small companies but with that effect. The barriers this creates for small companies include excessive indemnity insurance and borrowing capacity requirements, little feedback, and large bureaucracy required for each contract.

The design of such contracts seems often to be about mitigating risk (workshop, Birmingham Airport). For example, financial requirements in contracts are designed to protect customers from companies going broke, but can also exclude new firms in the process as well as well-established firms that do not have a track record of borrowing because they have been successfully self-financing. If this is applied to all bidders regardless of size it demonstrates a lack of ability to identify risk differentials.

Some organisations do this better: HEFF told us that some supermarkets require the same information from all suppliers, whereas others require less from smaller providers; Skanska have taken proportionate risk approach to contracts and risk. Thus on the smallest / lowest risk contracts they make far more limited requirements on potential suppliers. Darren Gardner suggests that Eon also at least partly understand the risk differentials between small and large businesses. Birmingham City Council also requires less financial requirement on smaller contracts but this still excludes established local firms from the largest contracts, other than as subcontractors. There were a number of complaints that under this subcontracting approach larger firms take a management fee while leaving the smaller firms to take the risk and deliver the actual work. While BES requires its preferred partner Carillion to use local companies, the actual requirement is for 90% of them to have a Birmingham postcode for their offices. This limits the potential for involvement of New World Solar (by a few 100 yards) and Eco2Solar.

Publicly funded organisations have to follow national and EU procurement regulations. These place numerous restrictions on how these organisations undertake their procurement activities and specifically restrict them from requiring suppliers to be local though they can still specify achieving benefits that are associated with local provision. This requires considerable imagination from procurers. Private companies in receipt of public grants for works can also find themselves subject to the same procurement rules for the grant-aided elements of their work. Organisations such as RESCO saw this as a significant constraint. While West Midlands local authorities such as Birmingham and Sandwell have been at the national forefront of using procurement to support the local economy they too still see this as a constraint.

Networking organisations (HEFF and RETA) again have a role in overcoming risk and risk perception barriers by providing more assurance through auditing systems for small firms. This tends to be a requirement for them to win subcontracting roles for larger contracts although such systems may not be needed to ensure their own quality assurance to customers where they have effective short management chains. Part of the reasoning behind setting up Buy for Good was to help procurers reduce the time they had to put into individual contracts if they wanted to buy local and be assured of the quality of the goods and services they were buying. However it is relatively new and still has a very small capacity to take on new areas of work.

Local knowledge or lack of it also plays a part in how organisations view larger and smaller organisations as potential contractors. For example Think Walsall said that larger construction

firms will not subcontract locally because they don't have the local knowledge to know who they can rely on, so they bring their own people instead.

New World Solar commented that the BES model, with its large contracts, creates a lot of barriers for small companies to go through. The main providers may get companies to sign up, but this is not same as getting work to them. These barriers to smaller companies are also reflected in the way the Government' has set up the delivery of the Green Deal. See also section 2.6.3.6 on procurement through intermediaries.

2.6.3.3 Comparative cost of the product or service

Large and non-local organisations can often provide cheaper goods and services through economies of scale and loss-leading, and this is a common assumption. But sometimes this is not the case; with locally sourced goods and services stripped of the infrastructure costs of larger organisations. There was a perception expressed at the workshop of longer-term contracts with larger organisations ending up as being more expensive in the long run. Shropshire Council staff have compared weights of local butcher's mince and of mince from a major food supplier before and after cooking; due to water and fat content the 'expensive' mince turned out to be better value when cooked (LWM consultancy evaluation). While quality is not necessarily linked to local it is clear that best value is not always immediately visible but sometimes the reasons behind an apparent cost-saving becomes clear at a later stage.

The manager of BES commented in the workshop that including social value in the specifications for the BES partner had put off some bidders for BES who thought it would cost too much; but Carillion had found that including social value elements actually reduced their costs.

2.6.3.4 Reasons for choosing local procurement

The reasons for organisations preferring local procurement vary too. For some it will relate to personal or organisational commitment to social objectives or to the area (see section 2.6.9 on leadership, behaviour and culture). It can also come from a corporate social responsibility (CSR) agenda or from an understanding that a strong local business environment is to the organisation's own benefit. Birmingham Airport recognised that if they can help strengthen the local economy this provides business for the airport. They try to break down projects and contract sizes to encourage local tenders, but don't directly aim to address the social agenda. Other potential perceived advantages can be opportunities to tap into more diverse supply chains that are more flexible and more innovative or that small business is better at local responsiveness or more trusted (Sw).

2.6.3.5 Opportunities

The Social Value Act was seen by some interviewees as helpful to local procurement and suggested that we should get closer to making considering wider local impact compulsory rather than optional (Jericho, echoed at workshop). Making carbon footprints part of the council's procurement requirements (TW) is an option but would require a council mandate. LWM consultancy experience on sustainable procurement and expertise from Anthony Collins Solicitors' procurement expert Mark Cook suggests this has plenty of potential, and it has already been used as a criterion by Birmingham City Council. It does also need to be

recognised that while a locally sourced product will have less carbon linked to transportation it will still not always have the lowest carbon footprint.

It was felt that the message still needs getting across that collaborative procurement can produce better outcomes and prices. One comment at the workshop was that participants and LWM associates had identified plenty of ways that scale can be achieved without excluding smaller providers, but that it still seems to elude organisations in practice. Janet Lock suggested that many procurement officers were trained before sustainable procurement became an issue and therefore don't understand it. Better ways of measuring, in order to prove the benefits, was one aspiration (see section 2.6.11).

Another element is that whilst senior managers might understand the aspirations of a more holistic approach to policy, they and their staff may be constrained by short-term goals and monetary targets to focus on the price of each contract and on the team's administrative burden in administering it.

Think Walsall runs networking events where they contact the largest companies in the area asking what they will be looking to procure in the next six months and then invite relevant companies to meet with them. They suggested this should include networking with places with more money, such as Birmingham, Coventry, Warwickshire. However they also recognised that small local companies with only tradespeople don't have the time to attend these events.

Birmingham Energy Savers' procurement of Carillion as partners to deliver retrofit programmes in Birmingham and beyond is an extremely imaginative approach to supporting the local economy. It seems to have led to at least two major national companies changing their whole approach due to lessons from the bidding process. Both will show greater concern for employment of excluded groups, and Carillion in effect see themselves as having to become part of local economies rather than seeking to impose their model on each and every local setting. It is too early to judge the long-term impact of this approach, and there are various valid concerns about the two-tier methodology (see section 2.6.3.6 below) but is worth watching closely.

The Buy for Good initiative is also highly innovative in procurement terms. Similarly there are constructive approaches to buying innovation being undertaken by Birmingham City Council which is seeking to buy products that don't necessarily yet exist, so that rather than specifying or describing a particular product they specify the outcomes that the product needs to be able to achieve. Thus there is substantial innovation in using public sector procurement to promote the development of the local economy and innovation. However while some of it has spread rapidly, such as the replicating of the Find It In Sandwell portal by most of the surrounding authorities, there does appear to be a lack of knowledge of some of the latest developments along with a lack of independent evaluations of their effectiveness.

Local procurement approaches also have affected the way in which some large companies operate their mainstream business so as to create greater benefits to the local economy and excluded groups. RESCO and RETA both talked of national companies taking on board the requirements to use local labour and moving to a position where they now have whole departments to promote this type of work. Birmingham City Council and Buy for Good have developed a number of approaches to procurement so as to achieve wider social,

environmental and economic benefits. These include getting large firms to use local subcontractors and using carbon footprints as part of the procurement processes; tactics that were also identified as solutions by Think Walsall.

2.6.3.6 Advantages and disadvantages of local procurement through a single large intermediary

Advantages and weaknesses of the intermediary/tiered approach to procurement and commissioning were identified as follows:

- It can be better when local small businesses aren't ready to take on a contract themselves and can supply on a secondary basis (LWM consultancy evaluation).
- It can weaken sustainable local supply chains as returns to secondary suppliers are less. New World Solar and others comment that in their experience the large companies tend to take a cut of the costs but hand on all the risks to the smaller companies and squeeze them down on price. Even done in as exemplary way as possible, the simple presence of a profit-making intermediary will decrease the proportion of the contract value going to the smaller businesses than if procurement was direct.
- The procurer may see it as less risky, for example if they perceive the supplier's or contractor's ability to raise funding for upfront spend and to demonstrate this as providing essential security. This is often a requirement for large contracts and puts the power to decide who can get through the PPQ element into the hands of the banks and credit agencies.
- It is widely held to be less time-intensive than procuring in smaller lots directly from local suppliers, saving considerably for the person or team that manages procurement; whether or not it saves the organisation overall.
- It also lengthens management chains and supply and demand chains, which has been identified as a negative elsewhere in this report; but conversely procurers and project managers often see a time-saving advantage in dealing with one supplier rather than a multiplicity.

Managing how a genuinely strong local economy can be built when small businesses subcontract from large ones was described in our workshop as a minefield, with some small suppliers forced to participate at cost. The milk supply chain is another example of how badly this model can fail¹⁶. One comment was that Birmingham Energy Savers' contract that drives Carillion towards the local market, but "if they do a value chain mapping exercise it will result in a bidding war and no one will win".

2.6.4 Policy environment, infrastructure and processes

Both our interviews and desk research elicited references (RETA, others) to a bias against SMEs in many institutional processes and policies and in policymaking; and indeed this is reinforced by identification of real barriers to SME participation such as finance and insurance

¹⁶ See [Dairy farmers 'pushed to brink' with price cuts](#), BBC, July 2012

requirements in procurement and lending which are covered in the sections above. Matthew Rhodes felt that the largest oligopolistic companies (with particular reference to retrofitting) are able to control their market and influence government policy to shape it more to what suits them. Training (needing to be better integrated and forward looking) and accreditation were also identified by NWS and others as problematic for SMEs and local supply chains. Interviewees generally suggested that the collective importance of small organisations was often overlooked in policymaking despite their larger local multipliers and greater growth potential.

Consistency of policy environment was also mentioned by most interviewees involved in BES as essential if firms are to invest and supply and demand chains are to be built, especially for new markets such as retrofitting. RESCO mentioned the major role of central government policy in stimulating the retrofitting sector but felt that there was little longer term certainty and little clarity of objectives from central Government to help local organisations respond; nor did DECC officials understand the implications of their actions. Again most of our interviewees commented on the rapid introduction, and then even more sudden cuts, of generous Feed-in Tariffs, leading to the likelihood of a number of recent entrants to the supply chain going out of business.

Mark Clemson (NWS) suggested that the public sector provided a 'stop-start' policy environment linked to the financial year start and end; he felt that for retrofitting at least the Green Deal might create more continuity across this, as might rising energy prices. In his interview Mark mentioned how the 'funding culture' created by many short-term public sector initiatives (the Low Carbon Building Programme cited as an example) contributed to this. Reducing this stop-start tendency could be a crucial factor in developing strong and locally-owned or controlled supply chains.

Dan Carins from Think Walsall made a number of points about how with the right council mandate the local supply chain approach could be fully integrated into different parts of the council's decision-making processes; for example:

- Mandating the use of Think Walsall or FIIBC in the Council constitution
- Funds (e.g. BCRS grants) made conditional on use of Think Walsall: (examples locally included a Regional Growth Fund bid and European JESSICA funding). The point made was that the planning stage was too late to make much impact; but the funding stage gives the opportunity for either legally binding conditions or at least strong moral pressure to use local supply chains.
- Conditions on using FIIBC could have been used in the Enterprise Zone in Darlaston under a local development order in return for reduced planning bureaucracy and could be used in similar initiatives to incentivise development.
- Other parts of the planning process such as the application process for renewables could exchange planning support or simplification for conditions on using FIIBC. Planning could be proactive in alerting local supply chain agencies to development interest, including around area action plans and local development orders.
- BIDs (Business Improvement Districts) could require use of local suppliers.

2.6.5 Local and national power

2.6.5.1 Self-reinforcing centralisation

Power was another key theme in interviews. Our literature review identified the importance of local power (public and private sector) in developing a strong localised economy and the virtuous circle involved. Having the power to make major decisions locally is a key feature of a successful local economy. The examples in the literature review of UK local economies that seem to have achieved this - Orkney, with its control over significant oil revenues, and Cambridge, which built on its world-class university – are not easy to replicate. Cambridge's experience does at least suggest that a very long-term approach of building on local strengths can work in the UK.

The combined evidence suggests that this urge to centralise tends to be self-reinforcing such that if local leaders do not guard against this the local economy becomes more and more disempowered and irrelevant. LEPS, City Deals and the Heseltine report with its proposals to decentralise business support could be used to address this, though all these examples have the disbenefit that they are governed by purely and narrowly economic objectives, with an inward investment bias and often a lack of engagement with local democracy.

This was reinforced by interviewees (especially in relation to the retrofit sector), who felt that large companies had control over markets and heavily influenced Government policy so that it suited their needs. This was particularly raised by Encraft and Jericho but NWS and E2S also talked of the way that support services, colleges and accreditation bodies responded to central pressure resulting in services that could not be made to meet the needs of local markets or smaller companies. There were also criticisms of procurement policies that were biased against smaller companies although this was more frequently seen as a local authority issue rather than being due to national or EU procurement regulations.

2.6.5.2 Boundaries and scale

We have taken a pragmatic approach to defining what is local, as our purpose is to investigate increasing the local stake, rather than suggesting economies operate within imposed boundaries. For delivery organisations defining 'local', there is sometimes a tendency to default to local authority boundaries, but these are not the same as travel to work areas or the area over which local supply and demand operate.

There is also increasing focus on the idea of city regions, with Local Economic Partnerships operating at that scale. Our workshop participants suggested that the focus on cities and city regions can act as a barrier, which sometimes drives focus away from the local authority scale, and democratic structure, but that boundaries between local authority areas are also a barrier and that local authorities need to learn to relax about these: businesses have their own catchment areas that don't recognise these boundaries but may be bringing benefit across from the neighbouring area.

2.6.5.3 National government power

From the combined evidence, over-centralised political and economic decision making in the UK emerges as one of the biggest barriers to healthy local economies, and thus large-scale decentralisation of government power is one of the most significant solutions. This is not easy

to achieve: almost every British Government of the last 50 years has proposed decentralisation when in opposition or when first elected, yet has ended up creating even more centralisation. This partly results from 'wilful individuals', whether ministers or civil servants, wanting to make the decisions themselves; partly from the highly centralised structure of public finance in the UK and the power that gives to the Treasury; and partly from ministers being questioned by Parliament and the media about all sorts of issues that are essentially local. But large-scale decentralisation has successfully taken place in other countries¹⁷ and in the case of Scotland and Wales, UK ministers have been able to refer responsibility back to these now devolved governments. If the will and understanding is there, central government can decentralise.

The highly centralised power of business, finance and the media and its concentration in the same capital as the politicians (London) gives these power elites access to senior ministers and civil servants. They form self-contained networks of powerful key decision-makers who have London-centric concerns and understanding. This no doubt benefits the local London and south-east economy but also tends to promote centralisation and the view that what suits the powerful elites of London should be adopted for the rest of the country, further reinforcing centralisation.

It also means that for the rest of the country there are incredibly long and complex feedback chains, greatly reducing the chances of other local concerns being heard or effectively responded to.

Previous Governments, in an attempt to improve (or control) local government and local public sector agencies have introduced management and monitoring systems based on target setting and indicators, which has frequently further reduced local discretion but also the willingness to innovate and take risk. Similar control systems can be found in many large private sector organisations. On coming to power the present government scrapped much of these systems thus giving local authorities the ability to be more imaginative and innovative. Unfortunately, a pure economic focus to many of the Government's initiatives and the funding that accompanies them has lessened the effectiveness of this freedom to lead to more inclusive change. In addition, whilst leaders in both central and local government understand this new freedom, more junior staff are often tasked with taking a risk averse approach, often within narrow work areas. This is likely to act as a brake to imaginative approaches.

One of the consistent complaints of our interviewees, particularly in relation to retrofit, was 'stop-start' government policies. A LWM contact with experience of working in Germany (LWM consultancy evaluation) contrasted the British approach to that of Germany and Denmark where initiatives to support retrofit and domestic renewables started earlier, developed steadily and consistently, and thus led not only to far more energy efficient homes but to those countries having major manufacturing industries in renewable and retrofit materials. Another consistent concern has been the development of the Government's Green Deal and the extent to which following consultation it has developed into a model that suits the business model of some big businesses but not those of homeowners or small businesses.

A major feature seems to be a lack of understanding in central government of the range of successful business models that exist and the needs to tailor many approaches to local circumstances.

¹⁷ Jenkins, S. (2004). *Big Bang Localism: A Rescue Plan for British Democracy*. Policy Exchange and Localis

Another major national barrier is a narrow view in central government policy of what the economy is actually for. Economic policy is pursued as if increasing GVA will automatically lead to widespread social and economic wellbeing benefits being secured, instead of prioritising types of economic development that provide these in the long-term (sustainable development). We are far from the first to suggest this, but it remains one of the biggest barriers to achieving economic models that work for the majority and means that most economic decisions and policies are highly inefficient in achieving societal goals and reducing external costs. The pure economic mandate of LEPs is a good example of where this goes wrong.

2.6.5.4 Emerging areas for national policy and practice change

Beyond decentralisation of real power and accountability and reframing the purpose of the economy there are other national-scale areas of concern in developing successful and socially inclusive local economies.

Corporation tax is one area that is missing anything resembling a level playing field. Recent publicity shows that companies such as Starbucks and Amazon are able to pay lower levels of tax than the local companies with which they compete. The highly centralised operation of the banking and financial systems is another major area of concern (see Access to Finance appendix and Literature review section 3a).

The provision of major infrastructure is another that clearly requires a national approach, but this needs to reflect local needs in order to maximise economic, social and environmental benefits. Birmingham Airport's citing of national aviation policy restricting its ability to provide direct flights to China shows that even when taking an approach to inward investment that is centred around major infrastructure and inward investment, the south-east centric nature of UK government remains a barrier to provincial development.

Competition policy and regulation is another national and international issue, but at the local level in relation to both food and retrofit we see concerns about the domination of the markets by a few oligopolistic organisations (such as supermarkets and energy utilities) that are seen as having an undue influence on Government policies and which are able to undermine local initiatives and companies.

This discussion of local and national power links to the need identified in the literature review for a more long-term approach which maximises and harnesses local power - listening more to locally based business, and seeking to support local expansion rather than inward investment.

2.6.6 Business size and structure and innovation

2.6.6.1 Size and scale

The literature identified that most long-term growth comes from smaller indigenous companies, but it is clear that not all small companies grow or even survive (LWM consultancy evaluation). Some organisations and businesses want to remain at a certain scale – some may wish to remain very local, or may not have the capacity to take on larger projects. One way in which smaller companies and organisations can take on larger projects is by working together. This can be done by voluntarily working together and bidding for contracts as suggested by

Mark Clemson in the workshop, by organisations such as RESCO building relationships between smaller and larger companies, by others such as Buy for Good working to broker demand between larger purchasers and small companies or the wholesale markets enabling smaller purchasers to buy from smaller suppliers.

Markets and supply chains can also grow without individual firms growing. This can come from existing firms remaining stable and new firms setting up but staying small. It can also come from companies replicating themselves so as to keep the advantages of being small. This has been seen to have much greater economic benefits than is often assumed (LWM consultancy evaluation; literature review).

Growth for small companies was seen to be related to their ability to identify and respond to market needs. (This was contrasted, by one of the interviewees, to large companies that are able to influence markets and government policies to suit the needs of their organisation). There was a general view that the best small companies were flexible and responsive to their customers and markets would be supportive of innovation by their staff and would take full advantage of networking opportunities, but that many other companies lacked the time (or did not make it) and required considerable support to meet changing market demands.

One of the retrofit interviewees specifically picked out three of our case study companies as the type of small companies that are good at innovating and growing and related this to the attitudes and experience of their top managers and owners.

The importance of trust between companies and other actors in the supply chains was strongly raised in the workshop. In the workshops this was seen as an essential feature for small companies working together, but there were a lot of indications that it goes much wider than this. At a national level in relation to the Government's Green Deal there has been a great deal of discussion of the importance of homeowners trusting the people who seek to sell them the product. This has been seen as something that the big national organisations lack and thus need to hand over their marketing to trusted organisations such as community groups, local third sector organisations and local authorities. Recent LWM consultancy on a clearance programme in Sandwell identified the crucial importance of trusted individuals rather than organisations. Trust between individuals around networking and sharing information was also crucial and is reflected in the literature discussions of the workings of networks in the most innovative locations such as Silicon Valley.

Much of the above sort of trust is essentially personal, but trust also emerges as crucial in the need for consistent policy, in terms of whether the businesses that make up the local supply chain can trust policymakers when they say that they expect to see growth in a particular market. Without trust in such statements they will not invest to enable their business to grow in that area.

2.6.6.2 Innovation

As reported in the literature review, there is a largely unsubstantiated argument in much of the literature that small firms are better at innovating, adding to their contribution to a healthy and diverse local economy. What we get from the interviews is a more complex set of views. These relate to the different types of innovation:

- The expensive development of new drugs, cars etc, which can only be done by huge companies.
- The development of completely new products or ideas, e.g. Dyson, Apple, which may start small but become big or are taken over.
- Innovation to meet the customer's requirements through a particular order.
- Responding to current market changes, e.g. the use of online buying and selling.
- Innovation to meet anticipated future market changes e.g. diversifying from PV a couple of years ago.
- Staff innovating on how they do their job in response to day-to-day requirements.
- A whole network that innovates, e.g. The Silicon Valley effect.

2.6.6.3 Who innovates?

For most of the interviewees there was not a simple answer to this question. Much depended on the type of innovation that was being considered. A number gave examples of small firms that were stuck in their ways and did not innovate. Amongst smaller firms it is the unusual firm that is highly innovative.

There were differences of opinion around the personal skills and backgrounds that support innovation. One interviewee commented on the importance of people in management roles having a background in larger companies and or training in management and business techniques in order to facilitate innovation in their smaller company and specifically referred to Encraft, New World Solar and Eco2Solar as examples that made the point. Paul Hutchens of Eco2Solar didn't consider this to be his background, but did make distinction between SMEs set up on the back of someone's existing skills (plumber, baker etc.) and those set up by someone who has a vision and is looking to create something new. The latter, if successful, develops a 'can do' approach and like himself may well repeat the exercise, creating new ventures and products.

2.6.6.4 Research and development innovation

Large companies were seen by most respondents as the only organisations that could develop major new products through their very large R&D departments and their ability to cope with the costs of testing and bringing to market. There was some suggestion that many new ideas come from individuals who need to sell them to large companies to get them developed, but in other sectors it is possible to start small and grow – for example social networking sites.

Finance seemed to be a major barrier to R&D-based innovation for smaller firms. While support agencies in both sectors talked about EU funds to support bringing innovation to market and to help develop new projects as well as research partnerships with Universities, there was not the same degree of enthusiasm for those delivering products to market. Mark Clemson expressed the view that academic research partners were of value to them but that rather than providing them with new ideas or approaches they tended provide evidence that supported what they already felt they knew. RESCO felt that academics are often driven by their own research interests rather than the needs of businesses and that this undermined their value in developing local business innovation.

2.6.6.5 New products

Only one of our case studies was a specific product manufacturer (East End Foods). It is clear that both sectors are ones in which there are high levels of product development and innovation. Much of the local supply chain potential in food is in serving niche markets, and some of this involves the manufacture of high quality foodstuffs, which can be developed without major investment in research and development. HEFF works to support such activity; they identified lack of engineering skills, lack of ability to identify and sell to new markets as well as a lack of bank lending as significant barriers to food producers developing new products. In contrast firms in the retrofit market have created links with local engineering firms to produce specific products or solutions for them.

In the retrofit sector, while the development of products such as panel clips (for New World Solar) requires little R&D investment, the production of new wind turbines, boilers and insulation material does require major investment. This is something that BES and RESCO in particular sought to encourage and develop through supporting access to EU development grants and through harnessing demand.

2.6.6.6 Customer-responsive innovation

There is some support in the literature that large companies are too inflexible and controlling to allow their staff to innovate in relation to existing customer needs. This is supported within the interviews; Matthew Rhodes felt that large oligopolistic companies' abilities to control markets and influence government policy to suit them reduced their need to be responsive to the needs of their customers.

While most respondents said that small companies generally more innovative in their approaches to customers, they also tended to say this was not true of all SMEs. Paul Hutchens gave the example of a local garage who would not provide an account service for Eco2Solar and thus lost their business.

Dan Carins talks of local engineering firms regularly innovating in response to customer requirements but thinking of it as simply their core engineering businesses rather than as innovation. All of the retrofit interviewees expressed the view that small firms tend to be close to the customer and have the structural potential to be better at innovating to meet their customers' needs. In a separate interview unrelated to this project, Optima's chief executive Simon Kimberley said that Optima prefer to use local business for crucial work because Optima are large enough in proportion to the local business to take any problems direct to the business' decision-makers and get them resolved.

2.6.6.7 Responding to Market Changes

It was clear from the interviews that the more dynamic and successful companies were always looking ahead to how the market was changing. They need to be aware of what was currently in high demand but also to be clear about how the market was likely to change in the future and be preparing for that. For them; networking with others in the sector, policy makers, customers and others in the supply chain as well as being on top of the latest technical and product innovations was a crucial part of their businesses. For these managers it was a time-consuming but necessary activity, particularly in a market as rapidly changing as the retrofit market. On the other hand it was also clear from the support agencies that many small

business considered they did not have the resources to involve themselves in such activities and needed considerable support to be able to respond to the opportunities and threats of their market environment.

SMEs also have to make choices about which markets to respond to. Local companies that mainly trade nationally or globally will still bring money into the local economy, but their approach to markets and their business needs will differ. Some may choose to pull their money in from big contracts with national firms, or national niche markets, through a go-between (e.g. HEFF) where several firms can share the gain and the pain, selling in to another regional market such as London. These choices also impact on what the buyers expect from the SMEs, the way that they operate, their approach to localisation, employing staff, skills, ability to change ordering, etc. In Sandwell, locally-based food business Sunrise found contracts with supermarkets had poor margins but good cashflow. Given the choices of buyers for food businesses (supermarkets, catering, public procurement and niche markets), if businesses are not achieving the margins in supplying the larger organisations they may be better off selling into multiple niche markets (Sw).

It was raised in the workshops that markets, particularly for food, were becoming increasingly personalised and that this was an opportunity for smaller local businesses: *“There is a need to look at the forces that are shaping the economy from the global to the local level. There is a drive towards individualisation and personalisation, making suppliers think of how things are personalised, e.g. food – placing a picture of the farmer on the package and telling you something about his farm. Can this trend be used for localisation? “Could we visit the farm/factory?” “Could we talk to them?” People now want to know where goods are coming from and how they are produced; they value local production.”*

2.6.6.8 Staff Innovation

The managers of the three retrofit companies shared the view that staff should be encouraged to innovate in their work and this got them more motivated staff, better customer service and thus repeat business.

2.6.6.9 The Silicon Valley effect

The Silicon Valley effect is not just about two or more firms innovating but about developing a critical mass of innovation across a whole industry within an area. In the early days of the industrial revolution when Birmingham was the global centre for manufacturing innovation, the Lunar Society and other similar organisations played a key role in the open exchange of ideas that led to so much of the innovation. Californian networks around Silicon Valley played a similar role in the development of its early dominance in IT.

Whilst it would be a major exaggeration to claim that the Silicon Valley effect is operating in the retrofit market in the West Midlands we can see that innovation and supply chain growth has developed beyond the growth of individual firms through networking and interventions from local authorities, and individuals from private and third sector organisations. Larger national and international organisations and firms as well as academic institutions have also been brought into or been influenced by these networks.

The scale and impact of this innovation has however been limited. While the retrofit market in the West Midlands may be at the forefront of activities in the UK it is much further behind some other countries that have been able to develop leading manufacturing roles. Furthermore UK national Government has a major role in determining what the local market will be, and its deliberations and decisions are far removed from the West Midlands retrofit networks.

One danger of this (see literature review section 1a) is that if those in these local networks do not have the ability to make decisions and innovate, the most dynamic will leave and move to the areas where they can.

2.6.7 Support services

2.6.7.1 How support services were viewed

Throughout the interviews a general view emerged that the existing traditional support services are not effective at supporting locally owned business and localised economies. Of course our case studies were “good practice” organisations who have less need for traditional support, but some of them were in fact (non-typical) support services themselves, including HEFF, RETA, RESCO, Buy for Good, Jericho, Sandwell and Think Walsall. The services these provided – networking, market information and very specific services - were valued by other interviewees. These support service interviewees too say that specific and tailored support is needed rather than the generalised business support typically on offer (Sandwell, RETA, RESCO, Encraft, NWS, E2S, TW, B4G).

Support services such as HEFF, RETA and RESCO also see themselves as marketing smaller firms, using their own larger brands to help smaller companies contract with larger organisations. There was also a theme about large organisations (in both the public and private sector) being very demanding of paperwork, accreditation, etc. from small companies, and these support service organisations can help by assisting companies with accreditation, providing quality assurance and lobbying for less bureaucratic purchasing by larger organisations.

The Wholesale Markets have long depended on the Council for most of their support, although conflict over redevelopment plans for a time has led to the market traders buying in their own support. The Markets wanted specific technical support relating to the proposed redevelopment.

In the retrofitting sector there was strong support for support services like the Find Its and RETA that provide networking and market information, and for organisations that get the excluded ‘job ready’. There were also concerns about training not being suitable for their needs; tending to be based on narrow trades as is regulatory and accreditation requirements while what they need is people trained across range of traditional skill areas. This was also reflected in comments from Think Walsall and is a recognised skills issue which has led to the Government’s Employer Ownership of Skills programme¹⁸.

¹⁸ <http://www.ukces.org.uk/employeroownership>

There was a general complaint that too much support (training, research, business planning) is delivered to meet the requirements of funders, regulators or providers and not those of the recipients. Support would then be of a model that suits bigger rather than smaller businesses, and provided by people who lack the relevant experience. Matthew Rhodes felt that because business support organisations have to meet national targets, the business advisors have little freedom to deliver what is needed or to use their own initiative, therefore only attract poor quality advisors. What he needed when starting Encraft was someone who knew local opportunities, networks and individuals.

Janet Lock held the view that within the food sector there was a need for some fairly basic technical support that businesses often didn't realise that they needed. In contrast to standard business advice this needs to be technical support that is very sector-specific. (The Regional Food Academy at Harper Adams College was seen as particularly relevant to this, but according to HEFF, is now too expensive for smaller companies). Sandwell and Walsall also talked about the need for support for starting community businesses. Jericho expressed concern at the loss of greatly valued free business support for Social Enterprises, particularly from ISE.

The emerging themes are localisation-focused: firstly that when business support and training is nationally controlled it is less sensitive to local and sectoral needs and this sensitivity to local needs is what SMES require. But there is also concern that the end users had little power or influence in relation to the providers. Examples included problems of mistrust over local authority business advice to an organisation it is in conflict with; universities providing research support tailored to the interests of academics, and colleges providing training to meet the needs of national funding and accreditation organisations.

What seemed to be most popular was market information (Find Its) and networking, particularly for the retrofit sector, reflecting comments in section 2.6.1 on role of networking organisations in supply chains. There was also strong support for agencies that helped to get individuals 'work ready'.

There was a strong message (see also section 2.6.1 on supply chains where this is also raised) that our case studies would like to do more to support the local economy and excluded individuals and groups, but the time-intensiveness of the approach was a big disincentive.

2.6.7.2 Conclusions on support services

This could be the time to think about how best to provide local support services to help SMEs firstly in finding excluded workers to take on (and to support them in doing so), secondly in identifying the most beneficial potential suppliers and customers in their local supply and demand chains, and thirdly in accessing local suppliers easily. The last of these suggests some form of local broker service that could access goods from various sources and provide a 'one-stop' for the buying organisation. The types of companies represented amongst our interviewees are clear on their support service needs, so the answer may be to give them power and control over this support; but many small firms, particularly start-ups, may not know what they need.

There is an issue about changing the power relationships between service support agencies their masters and end users. Quality and flexibility of support needs to be better but most

service providers are under national control and not allowed flexibility. In turn that may also mean that they cannot attract high quality staff.

The Heseltine review, *No Stone Unturned*¹⁹, covers some of these points and if implemented with sufficient input from locally based businesses will provide an opportunity for support services to be more locally tailored (see section 3.6).

2.6.8 Finance environment

The literature review and the Access to Finance report highlight the difficulties for smaller UK companies and social enterprises in raising finance, especially ‘patient capital’ (a long term approach to funding). This is contrasted to Germany where there is a much healthier manufacturing and SME sector. There is also some evidence in the UK that financial institutions take more from poorer areas than they reinvest in them (see Boddy, 1980, literature review section 3a).

Most of our business case studies are self-financing (retrofit and markets), but need to borrow at times of major change.

2.6.8.1 Banks

Banks were largely seen by these businesses and the support agencies we interviewed as irrelevant at best. While there are alternatives such as CDFIs, directly raised bonds and Finance Birmingham, these are not well known and tend to be small in scale.

It is clear that even before the credit crunch there have been structural problems with banks that stop them from investing in small and new businesses. Banks tend to want a track record or borrowing & repaying, a steady business plan that ticks their boxes, not someone doing the unusual or responding to sudden changes – things which singled out our case studies as good practice (see also section 2.6.9.3 on risk).

The ability to borrow is also important for the private sector case study organisations because it can also impact on their ability to win public contracts where a borrowing capacity is included in pre-qualification questionnaires, thus ruling out firms that have not needed to borrow in the past.

For the self-financing organisations the need to borrow also became an issue when faced with significant change. For the market traders the cost of moving the wholesale markets would require major investment which they may find they cannot borrow. For Jericho the move from grant work (paid upfront) to commercial contracts (paid on completion or in stages) necessitated borrowing to overcome resultant cashflow problems. They lost one contract through the unwillingness of banks to lend to a firm that did not tick all their boxes but have since resolved this through a borrowing facility from Birmingham City Council’s Finance Birmingham. On a smaller scale, late payments on large contracts can necessitate borrowing, though our case study companies have been able to access bank borrowing for this.

¹⁹ <http://www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-untuned-in-pursuit-of-growth>

Two companies have had problems with their customers being unable to borrow from banks. This has been a major problem for Encraft in relation to registered social landlords (RSLs). At one stage banks were seeking to renegotiate existing loans to RSLs at higher interest rates, which coincided with RSLs seeking to develop PV-based projects to take advantage of the Feed-in Tariffs regime. A number of banks took the stance that such investment would be outside the scope of agreed business plans and that if they were to undertake the work they would then have to refinance the whole of their borrowing at a higher rate of interest. This made a number of schemes on which Encraft had been working unviable. More recently they have been negotiating with a German bank to raise finance for one of their end users.

Some interviewees felt that banks were overly bureaucratic with little understanding of SMEs and with a 'tick box' approach to lending. Matthew in particular called for intelligent finance with lenders who understand the business and take a longer-term approach to investment.

This attitude from banks was reflected in the Access to Finance report. This outlined the 'CAMPARI' criteria for lending decisions (character, ability, means, purpose, amount, repayment and insurance) make it more difficult for various potentially beneficial organisations such as service sector, social enterprise, SMEs etc. Relationship-banking methods based on local knowledge and the building of trust led to more, and more efficient, lending to small organisations. More details of current UK banking approaches to decision-making on lending is contained in the Access to Finance report (Appendix 2).

2.6.8.2 EU finance

RESCO have helped firms access borrowing and EU finance and there are several EU funded projects to support innovation in the retrofit market.

2.6.8.3 Consumer access to funds in local areas

The closure of bank branches over decades in low-income communities is also a problem for local economies. This impacts more on high street businesses than the types of businesses in our case studies. Also impacting more widely on the economy in disadvantaged areas is how banking serves the needs of excluded individuals. This is relevant, but not the main focus on this study, so will not be expanded on further.

2.6.8.4 Equity/share financing

Dan Carins in Think Walsall identified that equity funding is available but that SMES, particularly family firms, are not willing to accept the loss of control required.

Two of our retrofit case study companies had staff share schemes. This was in part about raising finance but more about rewarding staff and building commitment through employee stakes. The airport raised funds through major shareholding and though it also had an employee share scheme its real purpose was to build staff commitment. The airport was in a different global market from our other case studies in terms of raising finance.

2.6.8.5 Finance for support services

There is now little finance available for free support services. There were mixed views on this. For some the services had been so poor and so little to do with the needs of their company

that they preferred to select and pay. There was also a view that mainstream funding for training is too centralised and time-consuming, leading to colleges' prioritising their funders' criteria in the courses they provided rather than the needs of local businesses.

2.6.8.6 Local and community finance

While there was a great deal of dissatisfaction expressed in our interviews with the banks as sources of finance there was little mention of alternative sources of finance, other than from Jericho, a social enterprise, who borrowed from Birmingham City Council's fund for local businesses to overcome a crucial cashflow issue.

In the UK, Community Development Finance Initiatives (CDFIs) have experienced a three hundred percent growth in lending since 2006. In contrast there has been more repayment of loans to the mainstream banks than new lending to businesses. CDFIs that provide access to 'patient' capital (where lending decisions are based on a knowledge of the particular local circumstances and of the company seeking to borrow) have a better lending and repayment record than the mainstream banks – despite most of them only being allowed to lend to companies that have been refused loans by the mainstream banks (LWM consultancy evaluation). There is some UK good practice in CDFIs providing housing retrofit finance to householders and thus stimulating the retrofit supply chain.

The Community Finance Development Association's *"research suggests that £100 million – just a fraction of the Funding for Lending money – could create about 20,000 jobs overnight if it was delivered to businesses through [CDFIs]."* This is quoted in the Access to Finance report, which goes on to recommend the development of a CDFI Coalition so that CDFIs, credit unions and social banks in the UK can jointly lobby Government for policy changes to tackle underinvestment in local areas and offer creative solutions for tackling these issues in partnership with local authorities, Chambers of Commerce, banks, building societies and other stakeholders.

Community share issues have also been increasing rapidly in recent years. Projects backed include mutually owned football clubs, community shops, village pubs and a wide range of community energy schemes. With government support, Co-operatives UK and Locality have expanded their Community Shares Unit to provide specialist advice and support to establish an increasing range and number of community share issues over the next three years.

The Access to Finance paper suggests that the limited relevance of bank lending to SMEs results partly from the UK having one of the most centralised and concentrated banking markets in the world. In the USA, Germany, Switzerland and Austria there continue to be many more local and regional banks with a healthy share of the market. The benefits of this greater competition and banking diversity (between private, co-operative, mutual, municipal, postal and public forms of banking) have been found in a number of studies.

The Association of Chartered Certified Accountants say that within mainstream banking "the implementation of a more effective system of loan guarantees could have financed at least half of [SMEs] declined". This would help SMEs that meet the mainstreaming bank lending criteria; CDFIs and newer solutions are needed for others.

The Access to Finance paper also outlined the Community Reinvestment principle which requires banks to have transparency of capital flows so that poor communities can get loans as

well as make savings. In the USA this was introduced as an Act of Government. It made a significant difference to economic stimulation including job creation from investment in housing, green economy, and also led to a much stronger US CDFI sector than we have in the UK – helped by strong public policy support and CDFI collaboration (see below).

2.6.8.7 Other developing types of finance

More developments that have some merit for smaller and community-based organisations are: the Big Society Bank, a UK government initiative to provide finance for organisations seeking a social impact, and operating as a social investment wholesale bank with lending placed with intermediaries; Swedish Handelsbanken, restructured in the 1970s to provide a traditional small business lending system and operating quietly in the UK since the 1980s; Zopa, an Internet intermediary providing peer-to-peer lending in the UK; crowdsourcing, providing equity investment through portals such as Crowdcube; and Business Angels, which support business development by providing risk capital in the early years of a promising new business. The concept of development banking is also now recognised again as valid in the UK as the existence of market failure begins to be accepted. See the Access to Finance report for more information on these.

2.6.9 Leadership, behaviour and culture

2.6.9.1 How leadership, behaviour and culture were viewed

There was a generally shared view that getting the right mindsets is crucial to creating a successful localised economy. In many of our case study organisations an outstanding feature was the personal commitment of owners or senior managers to supporting the local economy, their staff, disadvantaged groups and the environment. They saw it as a part of good business and put it into practice through their organisations. Supporting and spreading this sort of approach is crucial to achieve an inclusive and successful local economy. ‘Wilful’ individuals such as these are the key drivers of change in organisations and society. Such individuals are not always in formally powerful positions and do not always share the attitudes of those we interviewed to supporting social and economic inclusion, environmental responsibility and the local economy.

Organisations such as Encraft, New World Solar and Eco2Solar that work to develop supply and demand chains do so as part of a belief system around supporting local communities and economies, rather than just from the point of view of the organisation. *“New World Solar is passionate about building integrated local supply chains in order to help the region migrate towards a Low Carbon Economy. At the heart of our philosophy is that local jobs will ultimately provide a platform for healthy, robust, sustainable communities.”*

There was a wider concern that the attitudes of the wilful individuals who supported the local economy and social inclusion were not widely replicated. Organisational culture was seen as problematic, with people lacking the imagination to work innovatively across sectors; being possessive about or fixated on their own work areas; focusing on problems not solutions; and not comprehending how the local economy fits in (RE, DC). Public sector people who are working with communities to get their needs met need to be trained in community

development approaches, as is happening in Sandwell, rather than being purely task-orientated (RE).

There was also concern that people find it difficult to get hold of these community development concepts: *“Economic frameworks are complicated and scary, or people struggle to embed them. There is also a perception that taking this approach on is about turning back the clock. There is a lack of recognition that these are the things that you have to do and that if you don’t, you won’t just damage the individuals concerned, you will damage the local economy”* (RE).

People who don’t have direct links with local economic activity struggle to engage or see no reason to do so. People from lots of organisations need these links with local economic activity in order to understand the key issues and the importance of taking decisions in their work life in the right way. Therefore we shouldn’t be surprised if people from all sorts of sectors don’t exhibit appropriate behaviours; they may get in the way of innovative projects and thus mainstreaming can be really difficult. *“If people (local authority employees) don’t have a very direct feel for the local economy, they struggle to engage. E.g. welfare problems – people concentrate on the problems not the solutions. Crossing boundaries is risky”* (RE).

What is required is to bring groups of people with like minds and different skill sets together to make things change, sometimes beyond the boundaries of organisations. It requires practical action as well as a strategic approach.

2.6.9.2 Supporting the right wilful individuals and culture

If, as it seems, attitudes, values, mindsets and trust are crucial in developing a strong and inclusive local economy, this creates a real challenge for those working in economic development.

The public sector in recent years has encouraged target focused mindsets, with ideas of a public sector ethos being seen as at best irrelevant. In the private sector it is shareholder value, globalisation and competition that have been the dominant values. Even in the third sector, more commercial and standardised approaches have been seen as the way forward.

However it is clear from the interviews that leaders with strong commitment to local inclusive economies can create and run commercially successful businesses and that local authorities (like Birmingham through BES) can through powerful procurement processes change the approaches and possibly even the culture of major national and multinational companies like Eon.

While the size and growing importance of the social enterprise movement is frequently underestimated (there are 62,000 social enterprises operating nationally, employing over 800,000 and with an annual turnover of £24 billion)²⁰ 44% report that they are hampered from achieving their potential because of a lack of affordable finance (see Access to Finance report, Appendix 2).

What can be done is to ensure that there is a genuine celebration and promotion of the business leaders that do practice inclusion and support the local economy, they should be

²⁰BERR (2007) *Annual Survey of Small Businesses UK 2005-2007*

listened to and have places on key organisations such as LEPS. More caution should be used in relation to the views of those who work for large national or multinational organisations as to whether they reflect the interests of the local economy or of footloose national or multinational organisations, as absentee landlords.

Local authorities need to use effectively the powers, particularly procurement, that they have to achieve the outcomes reflected in the values of supporting inclusion and the local economy. There was a view expressed in the interviews that even Birmingham through its BES procurement had not fully recognised the power it had as most companies were desperate to be involved and would pay to be able to test their products on BES programme (RESCO).

The culture of most public sector organisations was also seen as problematic, with an emphasis on the short term, on saving money and political expediency. Actions were dominated by the pressure to cope with the immediate and with legislative requirements and national demands.

It was felt that too few people can cross from strategic thinking to operational delivery and vice versa; and that there is a real need for people to do this. People who can get ahead of the game, understand where the points of effective intervention are and use these to shape change through operational activity, are also needed.

Another concern was the lack of mechanisms and resources to mainstream. *“We get lots of really good individual projects that never go any further. To make mainstreaming work we need to improve what we are already doing, not throw it away and start again”* (RE). The difficulty is that trying to weave new things into what organisations are already doing is a huge challenge, particularly at the present time. To achieve it will be dependent on inspiring wilful individuals and leaders who will take the long-term view that is needed to implement CED. It will also require effective networking in the public as well as the private sector to ensure lessons are shared and learned.

2.6.9.3 Risk and Trust

Risk aversion was seen as a major barrier to developing the local economy. It was seen as a driver in stopping large companies buying from smaller companies and led them to place considerable demand for time-consuming accreditation, quality assurance systems and credit ratings. Large organisations seem to perceive buying from small companies as inherently more risky. American writer Shuman also identified this risk perception as a problem and argued that there are many ways in which investment in locally-based business should be less risky than remotely-owned business (see literature review section 6). Whilst perhaps some evidence-based perspective change on attitudes to risk is needed, there are also ways to tackle this in the short term. RESCO works with small companies to help them overcome these barriers. Not all large companies do operate in this way: Skanska takes what it describes as a proportional approach to risk, in that the smaller the contract and the less crucial it is to them the less they demand in terms of formal paperwork accreditations etc. Some food procurers also operated in this more flexible way.

This form of risk aversion was seen as not only typical of large companies but something that affected all types of organisations, with risk-averse “beancounters” having powerful roles. Taking such risks was also seen as difficult for politicians who need short-term successes to keep their electorate on board.

The importance of developing local cross-sector trust was also raised by many of the workshop participants and can be seen as a key issue (and benefit) for successful local economies from the literature review. One aspect of this was the need to share risk. It was seen that organisations (particularly private companies) sought to pass risk onto others. Sharing it instead between different organisations with regard to who was best able to manage the different types of risk was perceived as an alternative.

Trust was seen as about much more than the sharing of risk but also about sharing work, ideas and problems for mutual benefit. One participant in the workshop stated that *“During the last few months of the high FIT rate, one business drove to Europe to pick up special bolts for one of its competitors. This happened because they understood the importance of delivering as much as possible together as a sector and proving the ability of local business to step up to the BES plate.”*

The former Regional Development Agencies’ “obsession with encouraging areas to compete with each other” was seen as unhelpful to joint working. However local authorities were seen as having greater trust from businesses than other businesses and the role of Coventry Council in setting up RETA was seen as crucial in developing the initial trust needed for it to work. See also section 2.6.2 on trust in relation to local knowledge.

2.6.10 Ensuring social objectives are met; employment and skills

As our literature review showed, some elements of social objectives do seem to follow from a more localised economy – more people having a stake, higher levels of civic participation, civic welfare, impacts on unemployment and an economic diversity that can better serve different cultural interests. What does not necessarily follow is reaching those at the greatest disadvantage, who could be left out of a local economic clique. An increase in local business cannot act as a proxy for reaching those most disadvantaged and therefore we focus on what the case studies have told us about how this can be better addressed within a localised economy.

But the literature tells us little about *how* a more localised economy comes to create these wider social and economic benefits. Our case studies can however provide significant insights into this. In the previous section we concentrated on the importance of the values of key wilful individuals but this is by no means the only factor to emerge from the interviews.

In some cases it is the nature of the work that is done and/or its location. The wholesale markets provide reasonable jobs that do not require formal qualifications, providing an employment opportunity for people from more deprived groups. They also support a much wider range of independent businesses that do not require large amounts of capital to set them up and which in return often operate in more deprived areas.

The wholesale markets meet a need for employment for those who have little formal education or qualifications but are looking for work and are prepared to be reliable. They find that people with few academic qualifications are often better at picking things up in a practical environment. Market businesses don’t need to actively recruit these people as they come looking for work. The BWFPAs have produced a full training package – H&S, fire etc and all the

companies, of whatever size, use this. This highlights the usefulness of an overarching collaborative structure for smaller independent organisations.

East End Foods meet a similar need: their sites are in areas of employment need and they recruit locally. Because they are known for being good on flexibility, conditions and equal opportunities, they think people from relatively excluded groups are more likely to seek work with them.

Sunrise Bakery in Sandwell recruits very local employees in a deprived area and although it has expanded to a new site (a warehouse), has held very firmly to its existing base as a production unit, because of the local staff, who live very close to work and the firm does not want to move. They also work with local companies and schools.

For a number of the managers interviewed it was seen as good business sense. By investing in their staff they got “emotional capital from them” which got them and their customers better quality work, more flexibility and further business through word of mouth. For those who sought work with the public and third sectors it also made business sense to support the local economy and inclusion, as long as this was practically valued by their potential customers. For the airport, their customer base was the local economy so that by supporting the local economy it increased its potential market. Unlike owners of multiple airports it was not in a position to move its investment around different airports, giving it a stronger local economy connection.

East End Foods, NWS and E2S shared a view that paying staff more than the minimum wage, supporting staff development, flexible working (for example school hour working for parents) and generally treating them well gets a better, more productive and loyal workforce. Allowing flexibility was also a common factor in the Wholesale Markets businesses. Our interviewees were keen to emphasise that this was good business sense; NWS also said it was good business sense to employ people from disadvantaged backgrounds because this was a positive factor for some of their major customers such as the public and housing sectors. An alternative perspective is that these people could also just be being public spirited, as ‘wilful individuals’ often are, but phrase it in this way because it is more acceptable to be perceived as ‘hardnosed’. However, the success of these businesses indicates that there’s truth in the business case. Think Walsall’s experience suggests that unlike these examples, some local companies in Walsall tend to complain about motivation and attitudes, blaming young people and the public sector, whilst offering exactly the sorts of poor pay and conditions that will fail to inspire.

It is also crucial for successful firms that they have strong social capital. They need strong internal bonds to keep their staff motivated and to be able to have short management chains. They also need good linkages with their supply chains and potential customers as well as having access to information about possible changes in their market. This may tie them into taking a more inclusive approach to the local economy. They are more likely to do so if it is valued within their local market networks and the network has organisations or linkages that facilitate this.

While our private sector interviewees in the retrofit sector were keen to employ from excluded groups, all emphasised the need for recruits to be ‘work ready’ and the crucial role of

organisations like Jericho and Sandwell ex-offenders in enabling them to take on workers from the more difficult backgrounds.

Those in excluded communities need access to good employment opportunities if they are to become economically included and have a stake in the local economy. The literature makes clear the importance of networking with existing workers as a way into employment and this can be seen from our case studies. But we can also see the way in which public and third sector organisations can create these linkages for people who would not otherwise have them and help get people work ready, as well as providing opportunities for people from excluded backgrounds to develop their careers.

There were examples of local authorities using other programmes as ways into developing the skills of excluded groups and linking them to employment opportunities. For example, Safer Communities promotes activity in Tipton in which people learn less directly employment-related skills based on their interest, in order to boost confidence and help them think beyond their existing horizons. This was entirely successful but was short-term and not mainstreamed (RE). A Cape Hill Project involving residents in improving local services that were not meeting their needs, was a good example of an opportunity for people to train in social care and other skills, leading to employment – rather than stopping at community involvement and input into services.

Think Local in Sandwell assists businesses in recruiting from deprived areas, so Think Walsall encourages participating businesses to use this service (TW). Birmingham City Council links recruitment agencies that target high unemployment areas with its contractors to aid their recruitment. BES' requirement to target local 'difficult-to-employ' groups seems to have changed the practice of its potential main contractors, Eon and Carillion, as noted earlier in this report.

If individuals are to move on and develop their skills and opportunities they are likely to need more support to do this. Most of the organisations we interviewed undertook training and supported staff development. The real drive for this seemed however to come from individual private firms rather than being more widespread, and these companies tended to be critical of the training provided by colleges.

Having that effective support for excluded individuals and for the firms that could provide employment opportunities for them seems to be central to a strong inclusive local economy. We identified a number of successful local examples, but they tended to be small-scale: the main funding going to national schemes which were seen as failing to provide the benefits or to be directed towards the needs of the local economy, or towards excluded groups.

One of the ways in which the public sector can build immediate commitment and a longer-term culture to support an inclusive local economy is through its use of procurement – as discussed at section 2.6.3. Birmingham Energy Savers; Think Local (Sandwell) hospitals in Wolverhampton, Coventry and Birmingham have developed training hubs to ensure a succession of staff, including gardeners, health and retail (Sw). Birmingham City Council has for at least 20 years had local labour clauses in building contracts.

While there was little in our interviews to show that formal stakeholding in companies impacted on social inclusion it is difficult to imagine that they would be able to operate in the

way they did if they were driven by short-term shareholder value. We also note that the ownership of Birmingham Airport was important in tying them into the local economy. The literature review suggested that formal stakes through co-operative structures could provide a greater key to successful and inclusive businesses (such as John Lewis) and very successful local economies (e.g. Basque region and the area around Bologna in Northern Italy – see literature review section 1a).

Also highlighted was the importance of public sector actors recognising the value of the local being involved with and understanding local business networks and using this to inform their policies on economic development, procurement, training and social inclusion. This requires the public sector to be able to work across some of its traditional silos and make these links. Thus community economic development is an empowering model that starts with the community and aims to “grow your own” jobs rather than importing them.

There was also the suggestion that there needs to be a degree of population and workforce stability to develop a strong local economy with a sense of community and thus mutual support. Short-term employment and use of migrant labour can also causes a potential loss of community if the migrant workforce don’t settle. *“If you have continuous churning, you never know your neighbour”* (Sw). Locality, place and identity are really important. Encraft commented on the importance of being based in a good place to live, to attract and keep skilled staff.

2.6.11 Communicating and measuring the CED approach

Combined evidence suggests that in large centralised organisations (especially governments) there is a need for a constant stream of performance data to central decision-makers who are too distant to have any other way of knowing what is happening on the front line. In small organisations with short decision chains this can be supplemented or replaced by the direct knowledge of activities by decision-makers as well as by feedback from their networks of trusted contacts.

Thus in centralised economies what is measured and reported on becomes crucial in determining key decisions. Indicators, by their very nature, provide partial information, rather than a complete picture. If these indicators are inadequate, wrongly measured or collectively only tell part of the story, then the decisions based on them will be ill informed. In any system, the opportunity to ensure that qualitative local knowledge is also available to decision-makers is also important.

At the heart of arguments in favour of a CED approach as against a centralised approach to economic development is that its benefits are longer-term and go way beyond the immediate intervention, creating a ripple effect of benefits to local supply chains, to wider social, economic and inclusion benefits. As the literature review reported (see Armstrong et al, literature review section 6) this makes CED impacts hard to measure. In contrast, the benefits of the large-scale inward investment approach are immediately visible and measurable, but that it is more likely to have a longer term negative impact on local opportunities in terms of destroying jobs, undermining local decision making powers and failing to provide the same wider social economic and cohesion benefits.

Thus, the benefits of the centralised large-scale approach are far easier to measure while its potential downsides are not only difficult to measure, but in practice are often ignored. Workshop participants commented on the need to be able to measure and articulate the benefits of CED approaches much more strongly to those not yet sympathetic to it.

For measuring and demonstrating benefits, the statistical monitoring approach is much more suited to the management of large companies than small. Evidence needed for planning applications or to gain support for inward investment plans is mainly information already used in organisations' internal processes.

Thus producing this type of evidence, and adding on the use of management tools such as Environmental Impact Assessments or local multiplier tools, plus credit rating assessments, use of quality assurance systems and kitemarks as well as additional evidence of their impact on wider social benefits, all adds extra burdens to many smaller companies whereas such information is business as usual for large companies with lengthy management chains. These burdens are also of limited value in small company environments where the personal knowledge inherent in a 'relationship economy' means well-informed decisions can be taken with less bureaucracy.

So while much of this hard statistical evidence may not be directly beneficial to the creation of a strong and vibrant local economy it is crucial in the context of a highly centralised economic and political system, which demonstrates a built-in ideological bias towards large organisations and has developed systems of control to reflect their needs. This echoes Mathew Rhodes's earlier quoted view that in the retrofit market we have artificial oligopolies created by the regulators.

2.6.12 Can MCED work in the UK context?

It was raised in the workshop that some areas including Sparkhill in Birmingham have vibrant local economies but this still doesn't shift the big indicators on the economy and social wellbeing. The challenge to create a strong localised economy in the highly centralised UK is greater than in some other countries; Sparkhill is just a very small part of the West Midlands economy and it cannot operate in isolation from the surrounding economy. But evidence presented to the Birmingham City Council Scrutiny Committee on local centres did identify Sparkhill and other areas with high levels of independent shops as performing significantly better in terms of vacant shops than was typical of Birmingham local centres. Sparkhill is an area with a high ethnic minority population including large communities from the Indian subcontinent. These communities have developed a number of local business to support these communities. These include independent supermarkets, restaurants (the Balti Belt), and Asian wedding clothes and jewellery. All of these attract customers from a much wider area, but have not gone on to build local supply chains or to build themselves into larger regional businesses.

In contrast, East End Foods built on its initial links with suppliers of spices for the Indian subcontinent and links with Asian customers in the West Midlands to grow into a significant business which supplies on a national scale including to many of the supermarkets. Thus part of the answer for Sparkhill may be to strengthen the links between the successful elements of

its local economy and wider UK markets as well as building on its links with businesses in the Indian subcontinent.

The real test of the success of the local economy in Sparkhill is not whether it has seen more economic success and social inclusion than the rest of the UK but how it has compared with other equally deprived areas within a similar local regional economic context that have a less locally controlled economy. This could be useful future research.

3.0 Conclusions and recommendations

In our research we have identified that CED and localised economies have significant socio-economic benefits and that localisation and CED is also often a major factor in the economic success of traditional measures. In our original premise we assumed that these benefits come from more people having more of a stake, thus redistributing economic power, reducing disconnection, inequality, and vulnerability to economic failure. Our research has strongly reinforced this understanding and points to the need to revalue how we balance and integrate the two approaches in economic development practice and policymaking.

Localist approaches have been seen as niche rather than mainstream, but could achieve much more if they were mainstreamed and seen as an equal part of economic development alongside inward investment approaches. Our research identified some ways in which localisation approaches could be mainstreamed – the conditions needed to ensure a socially inclusive, diverse localised economy can flourish.

In the rest of this section, we lay these out as a set of pointers for different audiences as to what can help mainstream CED and localisation and create such an economy.

3.1 Why CED works and what it looks like

As previously outlined, Community Economic Development means economic development led by people within the community who have the power to make key economic decisions that are based on local knowledge and local action, with the aim of creating economic opportunities and better social conditions locally. It creates local supply and demand chains, markets and ownership. The community participates in the economy as strategisers, owners, investors, purchasers and networkers.

Localised economies are already more closely linked to community power than centralised ones, as more business owners and managers are part of the local community and local business is more able to adapt to local needs. When local demand changes local businesses are more likely to respond with innovations designed to meet that demand, rather than move to other markets. Because of their greater economic impacts, the growth of small companies responding to and developing local demand may well be more strategically important than big sites for footloose investors. The community-led approach maximises these benefits with its emphasis on empowerment and participation, its social objectives, and its basis in local knowledge, entrepreneurship, assets and control.

In summary, adopting a CED approach:

- Creates a virtuous circle between stronger local decision-making & stronger local businesses.
- Is a good way to build a more successful and inclusive local economy with more jobs and better civic welfare.
- Supports the development of local power to make key decisions about investment and innovation.

- Enables and empowers people to be economically active and included, with high levels of trust, cooperation and social capital and has short feedback loops,
- Creates an economy based on local vision, needs and resources.
- Builds trust and enables the sharing of ideas and best practice across businesses and other organisations, without which the Silicon Valley effect cannot happen.

3.2 Levels of change to mainstream CED

Three levels of change are required in the UK to help mainstream CED, necessitating three levels of commitment and integration:

i) The first is for interested individuals or organisations to simply do more of the sorts of good practice described below, using it as a menu for actions. While some concepts and models are groundbreaking, much of this good practice taken separately is very familiar and recognised as valuable; but much of it is also constrained by its full value not being understood, by being under-prioritised in relation to inward investment approaches, or by having to work against bigger policy and practice environments. This is why the second level helps:

ii) In which local authorities or organisations with broad economic remits take a fully integrated approach that mainstreams CED into their practice (see throughout the literature review for details of integrated approaches taken elsewhere in the world including Canada, US, Italy, Spain). A briefing²¹ Localise WM produced at the request of Birmingham City Council mid-way through this project outlines how this integrated approach might look on a local authority level. It would be likely to include the full range of actions described below and require the commitment of relevant local decision-makers.

This integrated local approach is likely to be effective, but would also be disempowered by the heavily centralised economic and other decision-making of the UK. One suspects it would be a mistake to wait for Government action before integrated CED approaches are trialled locally, but:

iii) The third type of action, Government action to remove barriers to, and give full consideration to, CED would make a huge difference.

Even in the currently highly centralised nature of UK decision-making, there are many actions that can be taken locally to mainstream CED; but it needs a long-term and consistent commitment. As many initiatives as possible need to be brought together into an integrated whole, with local business leaders, politicians and other key decision makers in the public and voluntary sector working together to build a strong vibrant and inclusive local economy.

3.3 Overarching approach and mindset to mainstream CED

Taking a strategic CED approach requires a reframing of economic development priorities in a number of ways.

²¹ <http://localisewestmidlands.org.uk/wp-content/uploads/LWM-Mainstreaming-CED-BCC-briefing.pdf>

- **Thinking of the local economy as a complex ecosystem;** a more complex approach that considers the symbiotic relationships of whole supply and demand chains rather than individual businesses. It is less about seeking to control the economy and more about identifying local assets and strengths, gaps, key links in and leakages from the local economy, and then acting strategically to support or overcome these as needed. An approach to regeneration projects and inward investment that thinks through the implications for local supply and demand chains, and ensures development is complimentary to the existing economy.
- **Forming a ‘relationship economy’:** as with ‘relationship banking’: the local economy needs to be based on effective and close relationships between companies that form supply chains, between innovators, between companies and support services, between employers and their staff and between companies and their customers.
- **Avoiding placing too much power in the hands of ‘absentee landlords’ who have little knowledge of local circumstances and little interest in the local consequences of their decisions** (see Swansea and Cambridge study in literature review section 1c). Maximising local control means that there is an interest in the long-term development of the area’s economy, which gets better results.
- **Focusing economic development on partnerships and networking;** involving public, community, social enterprise, and locally based business sectors.
- **Setting and being clear about the right objectives:** for economic strategy to deliver social benefits it needs to have explicitly social objectives: the purpose of economic development is to allow more people to gain from inclusion in the economy.
- **A re-education amongst policy-makers to understand the collective strategic importance of the small scale/ small and medium sized companies, rather than equating ‘strategic’ with ‘big’.** An economy needs to balance different scales, but it is the locally owned or controlled companies that are well integrated into the local economy that provide the bedrock for the successful local economy with inward investing companies potentially providing added scale when appropriate. Overdependence on a few major employers or one globally exposed sector should be avoided, as many examples show us (see studies of Detroit and other cities, literature review section 1b).
- **Taking a long-term perspective:** Inward investment brings immediate benefits that are highly visible and newsworthy. Its potential harm is far less easy to see and is likely to be longer-term in its impact. It is thus more attractive to politicians who are looking to show that their actions have had a positive impact before the next election, to officers who have targets to meet this year, to financiers who require an immediate return for their money as well as to those who just can’t see the bigger picture. The longer-term benefits of CED approaches need to be clearly articulated and supported in a strategic local vision.

3.4 Specific actions to mainstream CED locally

3.4.1 Create a shared local vision based on the principles above, that:

- is created and communicated by local leaders;
- is participative, has explicitly inclusive objectives, and acts to give everyone a stake in their society;
- seeks to enhance local power over the local economy and for local people over their lives.

In the present context this means that the dominant voices in the Local Economic Partnerships need to reflect the interests and concerns of local businesses, communities and local economic opportunities, rather than the interests or perspectives of distant elites or organisations (absentee landlords).

LEPs tend to cover large areas that make sense in terms of travel to work areas and as the markets for many firms but are often too large for smaller firms. Business Improvement Districts have provided a model for joint smaller-scale working between local businesses the public sector and local communities. They could provide a model for a wider range of local working or possibly mini-LEPS (only with more community involvement) could be developed for areas larger than those covered by BIDs and smaller than the main LEPs.

The vision also needs to identify the ways in which strong vertical and horizontal capital will be built so that leaders see themselves as part of the local community and are linked into the wider community. This gives greater opportunity for potentially excluded groups to have a genuine stake in the success of the local economy and be socially included. It needs to identify the key support services and bridging agencies required to make this work, to support those that already effectively undertake these roles as well as to identify the areas in which improvements are needed.

Mainstreaming CED requires the development of new skills and knowledge amongst public sector staff. As well as the needs of economic development staff the approach needs to be built into the training of planners, procurement staff, regulators, public sector accountants and policy-makers. There is a strong need to build the approach into the training of new staff and into professional development process.

Community development, linked with local economic development, will be needed to help communities to understand their local economic roles, not just as buyers and workers but as strategisers, owners, investors, networkers and market-changers. Skills for local enterprise and participation should start at school.

3.4.2 Involve individuals with long-term personal commitment to the local economy and to social/economic inclusion in key roles (see section 2.6.9).

This commitment should in effect be part of the person specification for being a member of a LEP or its equivalent, for being board members for business support agencies or for being advisors to such groups.

This does not mean that there should be no role for staff of national or multinational companies that have their headquarters elsewhere but rather that they should not dominate and that their views should be assessed as to whether they reflect the interests of the local economy or of uncommitted footloose investors.

Mechanisms to create and reinforce bonding capital for such leaders should be instigated to help them feel valued and involved in the local community, for example through networks and events, through listening to them through awards and publicity and through encouraging joint contracts across local organisations.

3.4.3 Ensure a voice for and listen to SMEs that support the local economic and inclusiveness agenda - deliberately or otherwise.

Businesses and other employers that are committed to staff development, worker stakes and wider social and economic benefits should be actively listened to. Small and medium sized businesses are as diverse as the individuals that operate them and will never have one unified voice. Not all of them will actively seek to promote an inclusiveness agenda, although they may well still make some contribution to an inclusive economy. Social enterprises, and coops usually have this built into their structures but it also occurs in private firms and the public sector and the attitudes of owners and managers is crucial, as can be the type of work they are involved in. Our case studies of Encraft, Jericho, New World Solar and Eco2Solar and Birmingham Wholesale Markets highlighted this. By helping them to network, by making it easier for them to act and by highlighting their business successes (linked to their wider social actions) they can be helped to have a wider positive influence on local businesses.

Most of those working in SMEs will often not have the time to participate in extensive consultation exercises, still less to hire consultants to argue their case for them. Their voices can be promoted through existing (or new) networks such as RETA, and RESCO for retrofit along with organisations such as SHAP and WMCCE. The above are all part of moving power from absentee landlords to local committed people.

3.4.4 Identify economic development priorities based on seeing the economy as an ecosystem which needs a balance of sectors and types of businesses.

There are a number of ways in which economic scale, sector and geographical priorities may be different under a CED approach that sees the economy as an ecosystem.

- Economic linkages are needed between poorer and more affluent areas – poorer areas need to be able to sell relevant goods and services to wider local regional, national and international markets: this avoids wealthy areas trading exclusively and helps strong but still deprived relationship-based economies to reach sources of income that can make a difference (see workshop notes, Appendix 5).
- Bear scale in mind: different goods require different scales of production and size of markets. The economy will need globally trading companies to provide some large-scale employment. It will need to work across a range of sectors. It will need organisations that enable smaller local companies to reach out to national and international markets (East End Foods and Encraft provide different examples of how this is achieved). Other types of goods and service will operate best with a huge diversity of micro-enterprises which may better replicate than grow. It is crucial that a

range of sectors is represented so that those with growing markets (or where there are opportunities to plug leaks by serving local markets) can replace declining sectors.

- Make the most of sectors that are tied to the locality. Sectors such as retrofitting are immobile: the work has to be carried out in the area where buildings are and cannot be outsourced. The appropriate systems need to be in place to maximise the extent to which such work goes to local people and companies. Likewise there is a premium at present for locally sourced high quality food and part of HEFF's role is to help local suppliers meet that demand.
- Support start-ups (including social enterprises) and innovation: In an ecosystem, large and small individuals and species thrive or die over time; but overall the system itself remains stable. This is paralleled in a business 'ecosystem' where sectors and individual businesses will come and go: a high number of start-ups may be a positive thing for the system even though some of them will fail. CDFIs can often have a positive role in supporting start-ups; facilitate public-private research partnerships for innovation.

3.4.5 Amass and share good market intelligence

There are two parts to this: a) the economic intelligence needed to guide public interventions and b) the economic intelligence businesses need to maximise local opportunities.

a) Identify local economic and socio-economic conditions through such tools as:

- Obtain baseline data e.g. employment, per capita income, income differentials, social capital and inclusion measures.
- Identify networks and sections of the community including excluded groups and how these can be linked in (through private sector or social enterprise)
- Plugging the leaks analysis: using local knowledge and available data from all sectors to identify where money is leaving the local economy and how 'leaks' can be 'plugged' (including investment leakage and potential for social finance).
- Supply and demand chain gap analysis: identify unmet local demand or growing markets (e.g. locally sourced food for some areas) and demand that can be influenced (e.g. public, third sector and local business demand)
- Identify assets including locally based businesses; key organisations, key facilities; vacant land and buildings; unemployed workers (potential employees), amassed savings and pension funds of the area's population. Identify skills, training, planning and other needs for locally based/owned business.

Use the above to identify key growth opportunities, including opportunities for smaller firms to get into growing markets and procurement; and structural opportunities for new businesses including social enterprises and co-ops. Identify barriers and ways to overcome them.

b) Market intelligence for local businesses:

- Ensuring market makers (see 3.5.6 below) provide information on their future programmes and what this means for smaller companies. (The Find Its provide an

element of this; RESCO and BES provide more detailed information for potential suppliers; Buy for Good and others provide support for smaller firms to be able to meet the future demands of large customers.)

- Support networks that bring companies in the same sector or supply chain together to share knowledge, and ideas.
- Encourage smaller local firms to work together on contracts to share and develop good practice, and to build trust. Support local firms in joint procurement to enable them both to gain economies of scale and to maximise their local multipliers: consortium activity can provide scaled-up product and service offer and efficiencies while maintaining local autonomies and diversity (see literature review section 6).
- Ensure information is available for and about local firms to encourage local sourcing. Ease of access of information and good local sources is crucial for procurers to prevent the resource constraints of both small organisations (however committed) procurement staff in larger organisations (particularly in the public sector). Some form of kitemarking may be an effective approach.
- Have public and third sector bodies (local authorities, Universities, Chambers of Commerce business networks) commission, undertake and make available analysis of market trends and opportunities.
- Public sector funding for open source R&D (e.g. Aim High which is linked to the bringing of new technologies to market in the retrofit sector.)
- Respond to times of major change with high quality targeted support that is specific to the sector.
- Help academic institutions to link with the needs of locally based businesses of all sizes and types.

3.4.6 Create and strengthen organisations which help develop supply and demand chains and horizontal social capital.

- Publicly supported anchor agencies such as RETA, BES, RESCO, HEFF, the Find Its and Buy for Good all support supply chain linkages. Some of them also help smaller local firms to meet the demands of large purchasers. Whole-system cost benefit analysis will help identify whether these bring a return on investment.
- Use these and procurement good practice as models to mainstream good practice approaches to procurement that can be adapted and built on (see section 2.6.3).
- Use major demand creators e.g. the public sector, utilities, for 'market making' to support development of local supply chains (see Birmingham Energy Savers in section 2.6.1.2, and 3.4.7 below).
- Encourage new structures such as consortia of GP practices and Academy schools to be key organisations for developing local supply and demand chains in ways that would help achieve both health and education.
- Support private firms that also take on this role (see our case studies that do this in section 2.6.3.1, e.g. Encraft, NWS). They could be supported by spreading the approach of Buy for Good into the private sector

- Consideration should also be given to supporting or safeguarding firms and places that are key to linking local supply chains, e.g. abattoirs, wholesale markets (see section 2.6.1.1-2 on key linkage organisations).
- Support the organisations that are specifically set up to link excluded groups to employment opportunities and that do this successfully, (e.g. Jericho, Sandwell) including those arising from Community Development.

3.4.7 Form close ties between economic development and public sector procurement so that the latter can be used for the former to achieve more within limited whole system costs.

This should at the very least give local firms and SMEs a level playing field.

- Procurement can be used to provide consistent markets needed to develop local supply chains and minimise the ‘stop start’ demand (see section 2.6.3).
- Measure, value and specify social benefits in contracts, with clauses built around security, significance and solidarity and satisfaction (used by BES); use the Social Value Act fully. See also related Barrow Cadbury-funded work by Birmingham & Solihull Social Economy Consortium²² on social value in procurement.
- Consider whole-system savings, e.g. investment in local generation and support of social care companies will reduce the social care burden.
- Use the approach of procuring through a single large for-profit intermediary with caution and sparingly because of its potential damage to the local supply chain (see section 2.6.3.6). Investigate and facilitate alternative procurement methods such as supply chain consortia or non-profit link organisations or smaller contracts. Some time-saving may be regained through the increased efficiency of shorter management chains.
- Establish links between procurement and other teams, including economic development.
- Replicate and mainstream procurement good practice. Ensure the key decision-makers understand comparative procurement risks and costs in relation to large and small suppliers and that processes reflect this and are flexible to respond to the difference.

3.4.8 Ensure the finance set-up is decentralised and locally responsive, supports positive development and enables local and small businesses to access finance.

This requires changes to mainstream banking and provision of alternatives.

- Ensure small firms have access to long-term capital.
- Use the community reinvestment principle to ensure that money is not transferred from poor areas into wealthy ones.
- Support and publicise the further development of initiatives that increase access to ‘patient’ capital (a long-term approach to funding) and where lending decisions are

²² More about this work in progress can be seen at <http://www.bssec.org.uk/blog/?cat=49> or the project’s literature review at <http://www.bssec.org.uk/blog/wp-content/uploads/2012/11/Literature-Review-ESV-1.4.pdf>

based on knowledge of the particular local circumstances and of the company seeking to borrow. CDFIs may be able to provide this albeit at limited scale.

- Promote local investment bonds that raise and invest locally to help keep local capital in the area, create more local jobs and support greater equality. Promote CDFIs, community share issues and other types of alternative finance. Some local authorities including Birmingham also have funds available to lend to support local businesses.

3.4.9 Use planning, regeneration and funding processes and support services

- Planning departments could be proactive in alerting local supply chain agencies to development interest, including around area action plans and local development orders.
- Planning decision-making should consider and measure the harm as well as the benefits of new development or regeneration schemes in terms of jobs lost, firms closed, a move to 'absentee landlords', loss of businesses that form crucial links in a local supply chain, loss of cheap rents and starter premises. Support packages should be available to help local firms survive redevelopment where necessary.
- Planning should ensure that start-up and first move premises are available – often meaning cheap premises.
- BIDs (business improvement districts) could require use of local suppliers.
- Economic development departments should assess the long and short-term impact of inward investment on the local economy, and on social and economic inclusion, as part of decision-making about incentives and support.
- Funds, loans, development incentives and parts of the planning system such as local development orders, relevant planning permissions and simplified planning processes, should be made conditional on use of local procurement portals.
- Mandate the use of local procurement portals, and similar tools, in Council constitutions.
- Prioritise support services that are able to be tailored to meet local, sector-specific needs and conditions e.g. training, finance, accreditation, advice, and where end users have the power to shape the support they receive; integrate training with future local skills needs.

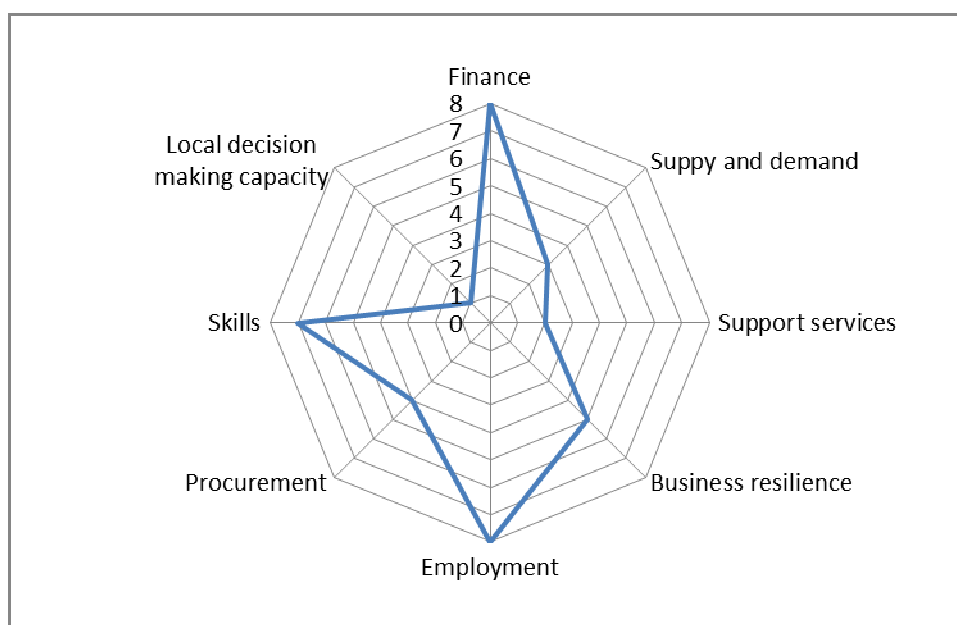
3.4.10 Measuring and evidencing the approach

Whilst those of us involved in the MCED project might inherently know the benefits of community economic development we collectively need to be much better at measuring and articulating these benefits to others; emphasising the differences this approach makes; not what's easiest to measure:

a) Measuring/evidencing: There is a need to ensure that a fuller range of costs and benefits are measured and taken into account. It is unrealistic to expect that every decision will evaluate the full long-term costs and benefits of different options. However, there is a need to use existing measures of wider impact such as local multipliers and to develop more proxies that can be used to evaluate decisions. This however is beyond the scope of this

research. Local decision-makers also need to have the confidence to incorporate more of their own knowledge and experiences in their decision-making and to think in terms of the long-term interest of the local community and economy.

There is a need to be able to measure how effective CED is in a community, to be able to analyse where things are going well and what interventions may be needed to make improvements. A model needs to be developed and piloted, perhaps based upon the framework used for our case studies and represented in the diagram below.



Radar diagram of factors that might be used to measure progress in CED

b) The need to articulate the evidenced impacts in the right language for different audiences:

- Powerful people within the region
- Local businesses themselves and consumers
- Local authority or organisational 'beancounters' (risk averse) - based on a business case
- Politicians need the 'full picture' e.g. wider benefits - to assess risk
- Local Enterprise Partnerships: voluntary sector councils provide one way in, though community economic development goes beyond their remit
- Central government decision-makers.

There is a need to communicate community economic development as practical and integral, not additional, and to demystify and simplify it. This will need significant work to get right (see also research needs in section 3.6 below).

3.5 National actions to support CED approaches

As stated at 3.2, the recommendations above can be pursued as standalone actions or as an approach fully integrated into main council or other organisation strategy. But below is a summary of what could be done nationally to facilitate mainstreaming of community economic development and enable it to maximise its potential.

The greatest national barriers (covered in more detail at section 2.6.5.3) to the actions in sections 3.3 and 3.4 above being implemented locally are over-centralised political and economic decision making, lack of central government policy consistency (stop-start policy, programmes and projects), models designed for big rather than small business and with little sensitivity to local conditions (Green Deal, Green Investment Bank, etc.), and an apparent Government belief in the paramount position of economic goals, forgetting what the economy should be there for.

Consequences include London and South-east centricity in the decisions that are made, long complex 'feedback chains' for the rest of the country that result in a lack of ability to be heard; the pure economic focus of some structures such as LEPs and recent changes to planning policy and guidance; and extreme inefficiency of economic development in achieving societal goals or reducing external costs.

The following, some hugely ambitious, others more within reach; will help address some of these problems:

- Decentralise decision-making: but in a way that respects democracy and common public goals rather than putting remote business in the driving seat.
- A national recognition that economic growth or GVA is far from the only factor in creating a healthy local economy and widespread wellbeing.
- Change of decision-makers' mindset to recognise local differences. Hand over national support services to local agencies to deliver in a locally appropriate way (Heseltine's *No Stone Unturned* review may provide opportunities for this²³).
- Ensure that there is a level playing field in terms of corporation tax, and other taxes, so that larger companies cannot use loopholes to pay lower levels of tax than the local companies with which they compete.
- Revise the operation of the banking and financial systems so that they support local economies and enterprise; the introduction of a Community Reinvestment Act for the UK that enables transparency to be created to reveal where banks are lending or not lending locally right down to the neighbourhood level.
- In mainstream banking, changes to include the re-introduction of relationship banking approaches; better understanding of risk in relation to small business; increased banking diversity; the implementation of a more effective system of loan guarantees for SMEs; introduce development banking methods like those proven by KfW (see Access to Finance paper, Appendix 2) to reduce the cost of capital and to provide more effective guarantees for widening access to finance.
- While the provision of major infrastructure clearly requires a national approach, it needs to be undertaken in a way that incorporates local knowledge of social, economic and environmental issues and delivers decisions that support local economies.
- Revise competition policy and regulation to ensure that a few oligopolistic organisations (such as supermarkets and energy utilities) don't have an undue influence on Government policies.

²³ <http://www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-untuned-in-pursuit-of-growth>

- In order to ensure that Government produces consistent policy and generates policy that supports CED and localisation, civil servants should have had some practical experience of working in these environments so that they can anticipate the implications of their actions. The same applies to local authorities and also democratically elected representatives.

3.6 Civil society, thinktank and support agency action

There appears to be a great deal of dislocation between the electorate and political parties on the matter of economic change. The approach to healing the economy following the credit crash seems to be largely one of 'getting back to normal,' to the economic system that was in place in the lead up to the crash. Adopting a CED approach which makes the economy less remote, more linked into place and benefiting people, and inclusive for all parts of the community, could provide an attractive alternative. If this is to happen it needs to be better and more widely articulated and lead to real decentralisation of decision-making.

In the meantime, local political and economic leaders need to act together to keep making the case for greater decentralisation of real power.

Our case studies identified that education and communication on the benefits of a mainstreamed CED approach are valuable. We certainly found many misconceptions about the potential of CED, which to some simply means "social enterprises" (see literature review introduction, Appendix 1). Civil society and public sector support agencies could take a role in communicating CED locally and nationally, tailored to specific audiences.

More research is needed into the social inclusion, equality and local diversity impacts of localisation and CED approaches in comparison with more mainstream economic development approaches, and how these can be better maximised and integrated. There is a list of these research suggestions at section 7 of the literature review. Further research needs identified during the later stages of the MCED project are:

- Impact of Birmingham Energy Savers on the local economy – to identify what can be learned about the successes and weaknesses of the intermediary approach to local procurement and targeting disadvantaged groups from this case.
- How an area such as Sparkhill - relatively deprived but with high levels in local business ownership - compares with other equally deprived areas within a similar local regional economic context that have a less locally controlled economy.
- There is also the potential to look at international comparisons to identify effective practices in regenerating smaller areas. This could include consideration of the potential transferability of lessons from the successful cooperative based approaches in the Basque Region and from Emilia-Romagna as well as the more comprehensive approaches to CED in the US and Canada that are covered in the literature review.
- More detailed case studies looking at wider ranges of local businesses than we have had the resources to do. This should include different sectors as well as possibly more typical small firms or organisations that are not as consciously committed to supporting the local economy.

- Action research that follows through the impacts of different types of investment decisions to identify their different positive and negative impacts on the local economic system; and then develops this into tools that can be used to help ensure that these wider benefits can be taken into account. There are many potential aspects to this including health benefits, local inclusion, local multipliers through supply chains and innovation and economic growth impacts in the longer term.
- Consideration of regulatory systems to assess whether or not they do operate in the interests of larger companies at the expense of customers, smaller businesses and long-term effective economic success.

Given the contribution CED can make to sustainable development (see section 1.2), it would also be timely to explore the impacts of CED approaches on resource efficiencies, environmental justice and local environmental quality. Exploring the relationships between a local economy 'ecosystem' and real ecosystem services could be a valuable area of research.

3.7 Final conclusions

Throughout this research project we have been struck by the effort and commitment to creating an inclusive local economy of many of our interviewees. From the remarkable thriving resource that is Birmingham Wholesale Markets to organisations dedicated to employment of the disadvantaged to innovations in the retrofitting sector, regardless of headline social objectives, these organisations are part of a solid localised relationship economy, providing us with insights into how a CED approach creates greater benefits, the sorts of conditions it needs to flourish and many examples of good practice that others can build upon.

Our final points:

a) It works. Incorporating CED approaches into economic development - based on local vision, needs and resources and with a high proportion of locally owned businesses - brings success in its basic economic vitality, job creation, resilience and stability, quality of life, civic welfare and civic participation, local distinctiveness and cultural diversity.

It is a model in which more people have a stake, and one with potential to reduce inequalities through this stake, enabling more people to be economically included. It creates a virtuous circle between stronger local decision-making & stronger local businesses, which together lead to healthy successful places and communities. It builds trust and enables the sharing of ideas across businesses and other organisations, which creates entrepreneurship and innovation.

b) It needs to be done strategically: Our findings reinforced our understanding that CED is not taken seriously by decision-makers at all levels in the UK. To get beyond isolated initiatives at the margins of the mainstream economy, we need to take a strategic approach to integrating CED and mainstream economic development, so that more and less local options are considered on their merits rather than on assumptions.

Doing this requires a reframing of economic development priorities, and a re-education to understand the collective strategic importance of the small scale, rather than equating 'strategic' with 'big'.

It's worth remembering the colourful analogy of remote multinational headquarters and central government being "absentee landlords" in the way they make decisions: lacking in local knowledge or commitment to the long-term interests of an area. By contrast local people and organisations have a variety of investments in the local economy (physical, emotional, social and financial) so that its success is in their interest.

As another colourful analogy, it requires thinking of the local economy as an ecosystem: considering the symbiotic relationships of whole supply and demand chains rather than individual businesses in how we make decision on support and regeneration; identifying and supporting key link organisations in the local supply chain.

Rather than the economy being something that is 'done to people,' communities would understand their role in their economy not just as workers and shoppers but as strategisers, owners, investors, networkers and market-changers; in a 'relationship economy' where face-to-face interaction is key and local knowledge is valued.

A council-level strategic CED approach would have explicitly socio-economic objectives, and would tackle the spheres of planning, training, investing, purchasing, and policymaking in an area. Rather than seeking to control the economy it involves identifying local assets and strengths, gaps, key links in and leakages from the local economy and then acting strategically to support or overcome them as needed.

c) It's not just a local issue and it needs national attention: While much could be achieved at a local level, local action is disempowered by the heavily centralised nature of the UK, including funding, support services, banking, economic policy, and of course basic decision-making powers. To effectively mainstream community economic development to allow it to make an effective contribution to our economy and society requires these issues to be addressed. Not to do so effectively restricts the future development of many localities across the country; it is like entering a boxing ring with one hand tied behind your back.

There are widespread mindset and structural barriers within Government, opinion-formers and the media. We make a number of practical recommendations for structural changes, but perhaps the first point of call is simply as an idea for exploration and debate. What could this really achieve? Given the paucity of new ideas in UK mainstream debate to overcome the huge social justice, equality, stability and sustainability problems of the current economic paradigm, could a localisation and CED approach provide a new political and civil society point of interest? We hope local and national exploration of the CED approach can at least contribute towards changing the terms of the debate.

Localise West Midlands - January 2013

www.localisewestmidlands.org.uk

See appendices 1-7 in separate file

