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***LOCAL WEALTH BUILDING IN KIRKLEES: PHASE 1***

Summary report prepared by

**Centre for Local Economic Strategies**

Presented to

**Kirklees Council**

## INTRODUCTION

This report for Kirklees council marks the beginning of its journey to develop a more inclusive economy and growth through a new approach to economic development, 'local wealth building'. In so doing, the Council joins a progressive movement of local authorities using this approach from Barcelona and Bologna to Preston and Salford.

The mobilisation of a local wealth building approach requires political buy-in and leadership at the highest level. The Cabinet's commitment to this progressive programme of work is therefore an important first step. In phase one of this work, the Centre for Local Economic Strategies (CLES) has focussed on understanding more about the procurement spend of Kirklees Council, and the behaviour of their supply chain. This strand of the work aims to embed an approach that sits at the heart of Kirklees Council's corporate priorities and brings greater benefit for Kirklees in local economic, social and environmental terms. The report also provides an overview of broader local wealth building activity amongst other anchor institutions in the borough. The recommendations contained within this report will clearly articulate what needs to happen next to make the achievement of an inclusive economy a reality in Kirklees.

### Why this work is important

It is now increasingly obvious that our current growth model is failing. Last year, OECD data showed that the UK is the only developed economy in which wages fell while the economy was actually growing, albeit meagrely.<sup>1</sup> The UK is an economy where one in eight workers live in poverty,<sup>2</sup> and where 1.3 million people (including children) rely on food banks.<sup>3</sup>

Fuelling this inequality is the fact that the fruits of growth are too readily extracted by the already wealthy few, rather than increasing incomes for the majority. The problem is not just a lack of wealth but where this wealth goes, who owns it and who benefits from it. At a local level, the prevailing model of economic development has failed to engage with these questions of wealth distribution, focusing instead on generating contributions to GDP.

In Kirklees, where parts of the district are in the top 10% most deprived areas in the country, the council has committed to boosting and improving social and economic opportunity to create an inclusive economy. In order to achieve these aims, however, radical change is needed through the implementation of a local wealth building approach.

### What is an inclusive economy?

An inclusive economy is an economy which is focussed on social goals, social justice, environmental sustainability and prosperity for all. It contrasts to inclusive growth which aims to improve living standards and share the benefits of increased prosperity more evenly across social groups. From an inclusive growth perspective, inclusion is about what happens socially to growth after we have growth. Whilst helpful, however, this aim is limited, and limiting, given the scale of the social issues and economic challenges facing our society.

By contrast, an inclusive economy offers a more voracious conceptual frame to the social benefits that flow from, or feed into, economic activity. In essence, an inclusive economy is a functioning economy which is intrinsically married to social goals, social justice, environmental sustainability and prosperity for all. This is not inclusion after the fact of growth, or inclusion which fits within a liberal market frame. Instead inclusive economy seeks to develop inclusion with or without growth, whilst seeking to address the fundamental social flaws of market liberalism. Inclusive economy is not merely about the poor social effects of economic growth outcomes, it is about addressing the causes which are created by the market liberal approach to growth. This agenda is aligned to a belief in heterodox economics and new forms of economic democracy and urban development such as new municipalism,<sup>4</sup> an alternative characterised by the current wave of progressive policy and practice, emerging across Europe and beyond. This new wave is driven by a need for resilience, and a much deeper concern for place action on economic and social justice.

Consequently, this approach prompts local government to take a more 'activist' position: stepping into the market to enable, mediate and cajole other actors as a means of maximising local community and commercial benefit. Fundamentally this relates to building local wealth, securing social outcomes and new models of

<sup>1</sup> <https://www.ft.com/content/83e7e87e-fe64-11e6-96f8-3700c5664d30>

<sup>2</sup> <https://www.jrf.org.uk/press/uk-poverty-2017-country-reaches-turning-point>

<sup>3</sup> <https://www.independent.co.uk/news/uk/home-news/food-banks-uk-how-many-people-adults-poverty-a8386811.html>

<sup>4</sup> <https://cles.org.uk/blog/local-government-the-commons-the-time-has-come/>

ownership. Above all, this is about the principle of economic gains, which occur through the actual functioning of the economy, not just via 'after-the-fact' benefits or through the redistribution of any growth. Work by CLES with Local Municipalities (i.e. Barcelona, Oldham, Preston and Birmingham) and similar work of organisations such as The Democracy Collaborative in the USA, is reflective of this new wave.

## What is local wealth building?

As a fundamental driver of this new approach, local wealth building aims to reorganise and control the local economy so that wealth is not extracted but broadly held and generative, with local roots, so that income is recirculated, communities are put first and people are provided with opportunity, dignity and well-being. Through local wealth building we are seeing a democratic, social and economic movement, which seeks to provide resilience where there is risk and local economic security where there is precarity.

Local Wealth Building has a particular focus on the activities of anchor institutions. Anchor institutions are large established organisations, rooted in local communities, which can improve local economic and social wellbeing through the use of their spend, employment practices, and use of land and assets.

At the heart of the Local Wealth Building approach, then, are four strategies for harnessing existing resources to enable local economies to grow and develop from within.

- 1) Procurement - Progressive procurement can develop dense local supply chain of local enterprises, SMEs, employee owned businesses, social enterprises, cooperatives and other forms of community ownership. This type of procurement is locally enriching because these types of businesses are more likely to support local employment and have greater propensity to retain wealth and surplus locally.
- 2) Employment - Often the biggest employers in a place, the approach that Anchors take to employment can have a defining effect on the employment prospects and incomes of local people. Recruitment from lower income areas, commitment to paying the living wage and building progression routes for workers are all examples of the actions Anchors can take to stimulate the local economy and bring social improvements to local communities.
- 3) Land and Assets - Anchors are often major land holders and can support equitable land development (through establishment of Community Land Trusts) and development of under-utilised assets for community use. In terms of financial investments, directing pension funds to local investment priorities can bring transformative capital to locally rooted enterprises.
- 4) Democratic Ownership of the Local Economy - At the heart of Local Wealth Building is the principle that wealth is broadly held. Cooperatives, mutually owned businesses, SMEs, municipally owned companies and local banks enable the wealth generated in a community to stay in that locality and play a vital role in counteracting the extraction of wealth.

## What does the report tell us and what should Kirklees do next?

The initial phase of work in Kirklees has, as noted above, focused of procurement as well as providing an overview of broader local wealth building activity amongst other anchor institutions in the borough.

The headlines from CLES's research here are encouraging.

- 44% of Council spend with its top 300 suppliers (by value) is with Kirklees based suppliers, which amounts to £111 million. Of this £111 million:
  - 35% of this is spent within the 20% most deprived communities.
- 57% of spend is with small to medium sized enterprises (SMEs).
- 69% of Council spend with its top 300 suppliers (by value) is with suppliers in West Yorkshire (including Kirklees).
- There are also many encouraging signs of local wealth building activity amongst the wider group of anchors:
  - Some are already strong on local procurement and using their land and assets to benefit the community.
  - All of the wider anchors we spoke to are promoting social value through progressive employment practices.

However, with a local wealth building focus, far more wealth and surplus could be retained locally in Kirklees. Starting from a similar position, Manchester City Council increased their local spend by around 20% over a 5 year period which was estimated to have created 6,000 more jobs in Manchester. In a similar timescale, and by focusing on spend across all of its anchors, Preston has managed to inject an additional £70 million back into its local economy and raise itself out of the bottom 20% of the index of multiple deprivation.

These are concrete examples of what can be achieved through a local wealth building approach and Kirklees now has the opportunity to do the same. To show the huge potential that this agenda has for the Kirklees economy, take the scenario that Kirklees Council increases the proportion of local spend with the top 300 suppliers by 10% from the CLES baseline (an increase from 44% to 54%). We can estimate that this would represent an additional £102 million being invested in the Kirklees economy by the end of 2021/22.<sup>5</sup>

The following recommendations provide a clear plan for the Council to take the lead on creating an inclusive economy and growth in Kirklees.

#### **Recommendation 1 – create capacity to drive the local wealth building agenda**

To ensure that the local wealth building approach is embedded as a key corporate priority in the Council, we recommend that a cross departmental working group is formed to bring together commissioning managers from across the organisation with Category Managers. This group would be charged with coordinating and driving forward local wealth building across the four threads of activity: procurement, workforce, land property and assets, and the democratic ownership of the local economy. In addition, it is recommended that local wealth building be included as a standing item on SMT agendas to ensure it remains a priority.

Our other recommendations are structured around the four pillars of Local Wealth Building:

#### **Procurement and spend**

##### **Recommendation 2 – Truly embed social value**

Our review of procurement activity has created an evidence base and a starting point for Kirklees Council. However, the next stage is to embed social value as a core consideration in any commissioning and procurement. To do this we recommend:

- Review the Council Procurement Policy to ensure that social value is positioned as a key component. To provide clarity the Council should also develop:
  - A Social Value Framework (ideally organisation wide, rather than for the procurement department) to clearly articulate the social value priorities of Kirklees Council, and setting targets against all measures within the framework. The other option here is that the anchor network (see Recommendation 6) develop a common framework – in this case the priorities of the framework should be decided by all partners;
- The importance of social value must be backed up by clearly communicating the priorities of the framework to suppliers and partners and making it part of the decision-making process in tenders (including a weighting – which can be flexible depending on the nature of the contract);
- Tracking suppliers' progress against social value pledges and targets by making it a condition of contract for them to complete a survey;
- Further interrogating the perception of the supply chain, and the wider Kirklees business base around the ease of trading with the Council and how they can be best supported to deliver social value.

##### **Recommendation 3 – repeat the analyses to track progress**

The spend analysis contained in the full report is intended to provide a baseline for the impact of Kirklees Council procurement and employee wage spend. It is recommended that the Council repeat these analyses on an annual basis to track progress against the 44% spend with Kirklees suppliers, 69% of spend with West Yorkshire (including Kirklees) suppliers, and 57% spend with SMEs. In addition, the next analysis should

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<sup>5</sup> Spend with Kirklees based organisations in 16/17 was £111,487,463 (44.3% of total spend with the top 300 suppliers), if the proportion of total spend with Kirklees suppliers was 54.3% at the same level of total spend, this is an increase in local spend of £24,293,124.

From CLES' survey of suppliers it was found that responding suppliers re-spent 20p in every £1 of Council contract value on Kirklees based employees and suppliers of their own. Applying this ratio to the uplift equates to an additional £4,858,625

Adding these two figures together equals £29,151,749.

To generate the figure of £102 million, we have multiplied the £29,151,749 by 3.5 (for the full financial years 2019/20, 2020/21 and 2021/22 and the remaining 6 months of financial year 2018/19). This scenario assumes spend with the top 300 suppliers remains at £251.4 million per year until 2021/22.

broaden the scope of the supplier survey to include all the measures in the social value framework from Recommendation 2, and may consider alternative geographies such as the Leeds City Region.

#### Recommendation 4 – engage suppliers in areas of deprivation

The spend analysis has shown that Kirklees Council have 58 suppliers (with which there was a spend of £39.5 million in 2017/18) that have a presence in areas within the 20% most deprived nationally. Businesses in these areas need to be supported to offer opportunities to local people and deliver social value locally. Economic development officers responsible for business support should convene a workshop with local businesses to explore the barriers and enablers here and devise an action plan.

#### Recommendation 5 – further interrogate the findings of the influenceable spend workshop

Our gap analysis workshop has produced a list of 13 contracts where there is potential for alternative providers to deliver the good or service in question and some contracts where further research is required by the procurement team. These should be interrogated in more detail by procurement officers who should then make a recommendation to the cross departmental working group (see Recommendation 1) as to where activity should be focused. This exercise can, and should be, revisited on a semi-regular basis; for instance, whenever analysis is undertaken of the Council's supply chain.

Oversight and sponsorship of this work should then be provided by the working group. In addition, it is clear from our work that certain sectors warrant particular investigation such as Adult Social Care. Our engagement with the VCS suggests highlights a strong desire to work with the council here to play a more expansive role. The establishment of a co-commissioning network (Recommendation 9) is therefore needed.

### Diversification and Democratic ownership of the economy

#### Recommendation 6 – establish an anchor network for Kirklees

The Council should take the lead on establishing a permanent (and externally facilitated) anchor network that should meet a minimum of four times a year. The network should comprise representatives from anchor institutions who perform a leadership role and, as such, are responsible for driving forward change. The first meeting should focus on spend, procurement and commissioning, to share learning around best practice that is already being carried out in Kirklees. Subsequent meetings should focus on: developing closer links with the VCSE sector (See recommendation 9 below); the regeneration of Huddersfield town centre (see recommendation 12); enabling best employment practice, such as the payment of the living wage and recruitment of hard-to-reach groups; and linking anchor activity to business citizenship. Having a network leading actions around anchor's priorities may lead to advancing new forms of ownership that are naturally more inclusive, as a result of individuals having a stake in the governance (i.e. municipal enterprises, Co-ops etc).

#### Recommendation 7 – support the VCSE sector to play a more active role

The potential social value that can be delivered by the VCSE sector is significant in terms of maximising opportunities for integrated care and joint-working, tackling health inequalities, targeting hard-to-reach groups and creating a community resource which is resilient and sustainable. It is precisely this thought that underlies the Joint review of partnerships and investment in voluntary, community and social enterprise organisations in the health and care sector, published in 2016.<sup>6</sup> Our engagement with the Third Sector Leader groups suggests that the local VCSE sector is well organised, well connected and is eager to be more involved in the delivery of health and social care contracts.

As such there is the potential to increase and expand the VCSE sector's contribution and integrate it more fully into that of the public sector. By formalising the relationship between the public and VCSE sectors, new ways to collaborate, learn from each other and work at scale across Kirklees could be explored. In order to facilitate this action, we recommend the establishment of a co-commissioning framework. This framework will put co-production at the heart of commissioning, involving the VCSE in the earliest stage of needs analysis, review, planning and service development, putting strong resilient and inclusive communities at the heart of the future health and care system.

Comprising VCSE, local authority and CCG representatives the framework will endeavour to:

- ❑ Build the capacity of the VCSE sector, to help organisations gear-up to deliver Council and CCG commissioning intentions;
- ❑ Recognise the importance of infrastructure and volunteering to the VCSE sector and where appropriate provide support to continue its development;

<sup>6</sup> <https://vcsreview.org.uk/>

- Support the VCSE sector by providing longer term funding (where possible);
- Support the sustainable development of voluntary organisations by signposting and facilitating access to external and non-public sector sources of funding;
- Ensure prompt payment of small grants and contracts;
- Explore joint commissioning across Council, CCG and other public sector organisations to deliver priorities for the borough. (There should be a dedicated anchor network meeting devoted to this task);
- Allocate funding, contracts and other resources against clear, relevant and consistent criteria
- Ensure that procurement and contracting processes are transparent, fair and proportionate, to encourage the broadest range of providers, including consortia building where appropriate
- Accept the principle of full cost recovery, in funding VCSE organisations, to help them meet the true cost of providing services;
- Design monitoring and performance management systems that are appropriate and meet the needs of the VCSE.

## Employment

### Recommendation 8 – carry out a review of Kirklees Council employment practices

Anchor institutions are the biggest employers in the borough. The approach taken to employment has a defining effect on the employment prospects and incomes of local people. Our survey of employees has shown that the 224 respondents re-spent £1,726,208 in the Kirklees economy, equivalent to 35p in every £1 they received in net salary from Kirklees Council. In order to deepen the focus of the employment pillar of local wealth building there are several activities that the Council can focus on here:

- Task the cross departmental working group (see Recommendation 1) with developing ideas around how Council employees can be encouraged to spend more money locally;
- Map the home postcodes of Council employees to investigate the extent to which the staff reflect the community they serve;
- Review who applies for positions at the Council and amend the process to ensure it is inclusive;
- Review the quality of employment at the Council, including wage, terms and conditions, and the working culture;
- Present this evidence to the anchor institution network (see Recommendation 6) and support them to develop progressive employment and recruitment practice.

## Land and assets

### Recommendation 9 – conduct an audit of Council assets

We note the Cabinet's aspiration to stop charging VCSE organisations for using council assets. As such, the Council should follow the example set by other anchors in the borough who regularly let community groups and charities use their assets for free. This is one example of how assets can be better deployed. Another may be an investigation into the scope for taking a municipal stake in land and property as part of the West Yorkshire Pension Fund. A wider review of all Council assets would identify these additional opportunities.

### Recommendation 10 – Use business rates relief to enable business growth

Making towns like Huddersfield, Dewsbury, and Batley vibrant places to live and work will surely be a key objective in the Council's new economic strategy, due to be published later this year. It was also a theme that was picked up on by the Third Sector Leaders. The council should look at business rate relief beyond its current activity, which provides rate relief on properties worth less than 15k per annum. It should also look to work collaboratively with the University of Huddersfield, whose investment fund has in the past helped the establishment of local enterprise. Refocusing the use of the fund on new businesses which will contribute to the regeneration of the town centre - particularly community businesses and social enterprise - would have a significant impact.