Shared power, shared prosperity

Why the design of the UK Shared Prosperity Fund must include a significant role for community economic development

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"Across the United Kingdom, there are areas of persistent urban deprivation which have consistently failed to see the full benefits of the economic growth their cities have achieved." (JRF 2016)

This isn't about Brexit. It's about what comes after. The UK government has promised to replace EU Structural and Investment Funds with a new Shared Prosperity Fund, which it says will be used to reduce inequalities and deliver sustainable, inclusive growth everywhere in the UK. It has also indicated that the emphasis will be on redressing imbalances in regional productivity between the best performing cities and regions and the rest of the country.

The desire to foster a more inclusive economy is at the heart of this policy. Despite its growing importance, the concept of an 'inclusive economy' is too often used with imprecision. But a common meaning that runs through most uses envisages an economy that, through day to day business, is better at sharing opportunity, influence and wealth between people as earners, asset owners and citizens, wherever they live and whatever their background.

In her first speech as Prime Minister, Theresa May put the fostering of a more inclusive economy top of her government's domestic priorities. This typified the rhetorical response to the shock of Brexit: an urgent scrambling to acknowledge and denounce the uneven and unfair ways in which opportunity, influence and wealth had been shared in the UK over decades.

Many commentators who take inclusive economics very seriously, not least Co-operatives UK, have grumbled about the limited action to match government's rhetoric. In making decisions about the design and delivery of the Shared Prosperity Fund (SPF), the government has a chance to invest significantly its inclusive economy ambitions.

The problem is, if it continues its current trajectory, government is on course to squander this opportunity, because it has no clear plans for empowering the intended beneficiaries of its policy: economically disadvantaged people living in deprived places. Instead the plan is to distribute all of the SPF to corporate and civic leaders at the regional level for them to invest in the 'five foundations' of productivity: people, place, business environment, ideas and infrastructure.

This is almost a good plan. Smart investments in people, business and infrastructure that respond to local circumstances can certainly help to engender more inclusive local wealth creation. But the evidence shows that unless the intended beneficiaries are empowered as active partners in inclusive economic strategies, they are unlikely to actually benefit in transformative ways. This is because all inclusive economic strategies must work with the grain of markets and private interests, starting from significant inequalities in opportunity, influence and resources. If people on low incomes (economically active or otherwise) in deprived places are not full partners in the design and delivery of local inclusive economic strategies, it will be all too easy for their priorities and aspirations to be marginalized and ignored.

We know policymakers in Whitehall and the regions are looking for practical ways of empowering these people in the design and delivery of the SPF. This paper offers them a solution, by setting out why and how an approach known internationally as 'community economic development' could and should be incorporated into the design and delivery of the fund.

Barriers to local inclusive growth

Local inclusive growth strategies should aim to improve the distribution of opportunity, wealth and influence in the local economy, among people as earners, asset owners and citizens, with priority given to people on low incomes, economically active or otherwise. While every place is unique, strategies will most likely need to focus on increasing opportunities for people of all ages to enjoy decent livelihoods, achieve their aspirations and access the things they need in the market and through civil society. This will most likely involve: improving people's skills, self-efficacy and knowhow; growing a base of productive and inclusive businesses; and enhancing local infrastructure. This is pretty standard stuff. But it will also likely require the nurturing and mobilisation of social capital within communities. And in many cases it will also require efforts to give individuals and communities greater agency, ownership and control in the economy.

The challenge for local leaders in many places is huge. Research by the Joseph Rowntree Foundation (JRF) identifies many towns and cities that have not become host any significant new wealth creation following deindustrialization (JRF 2016). And where towns and cities have become hubs of post-industrial wealth creation, too many people living in these places have not benefited from this transformation and they, and the neighborhoods they live in, have become 'disconnected' from that success (JRF 2016).

Crucially, strategies cannot ignore these spatial inequalities within regions, or the very complicated, particular and esoteric circumstances that give rise to them. People on low incomes often live in areas of concentrated deprivation. While many of the causes of this deprivation originate in the wider regional, national and global economies, and must in large part be addressed at these levels, evidence suggests that 'disconnects' between deprived places and wealth creation in their regions are acting as significant barriers to inclusive growth (JRF 2016).

As we see it, local leaders seeking to foster inclusive growth face four challenges:

- **Information challenge:** The economic, social and geographical barriers to inclusive growth at the very micro level are often too complicated, particular and esoteric for local leaders to identify, understand and respond to.
- **Legitimacy and efficacy challenges**: Local leaders too often lack legitimacy with the intended beneficiaries of inclusive economic policy. Without this legitimacy they cannot engender the trust, participation, take-up and endeavor of people needed to effect real, lasting change.
- **Market challenge:** A lack of good jobs and life opportunities in struggling places, and mismatches between what is available and what people need, is in part a consequence of the global allocation of capital and other very powerful market forces that even the most successful agglomeration efforts at a regional level will struggle to overcome. Local leaders can't 'buck the market.'

Meanwhile people on low incomes in deprived places experience some complex and difficult barriers to shared prosperity. The majority rely on poorly paid and often insecure work to earn a living and a minority are, for a variety of reasons, economically inactive. Their skills and experience can be mismatched with the limited opportunities available in their travel to

work area, and their travel to work area can be more constrained than policymakers usually appreciate. They may have caring responsibilities or wellbeing issues that further reduce their options. They also tend to have limited access to the networks through which the more privileged often access work and business opportunities (JRF 2016). Furthermore they often have negligible savings or other liquid assets of a scale to provide anything more than a cushion against poverty (Social Metrics Commission 2018). And last but not least, they lack *economic power* (Commission on Economic Justice 2018).

Community is part of the solution

Strategies must address all the barriers to inclusive growth that operate at the city/regional level, including, but not limited to, those that arise out of 'disconnects' between deprived neighborhoods and local wealth creation. And the evidence suggests that making communities in deprived places partners in this process delivers better inclusive economic outcomes.

And yet, perhaps counterintuitively, while the economic geography of deprived places is part of the problem, the main motivation for empowering communities in deprived places must **not** be a response to place-based deprivation. Policymakers must avoid the mistake of treating this deprivation as the most significant causal factors in and of itself. As JRF warns:

"Many of the problems of deprived neighbourhoods – such as unemployment and deprivation – do not have their causes in deprived neighbourhoods." (JRF 2016)

Rather, the reason why community empowerment in deprived places works is because the power of community is part of the solution. There is a growing understanding of social capital is an important foundation of economic success (for example, Haldane 2018). Specifically, academic research has shown a causal link between enhanced civic participation and productivity (Kaasa 2016). Policymakers should understand community as a foundation of economic success, to be strengthened alongside infrastructure, place and so on. Since communities are constituted of people in their specific geographies, the key is for local leaders to take steps to strengthen communities as part of the 'People' and 'Place' pillars of their Local Industrial Strategies.

However, while stronger, empowered communities should certainly be understood as a foundation of inclusive growth, historical evidence suggests place-based community development is *not sufficient in itself* to transform economic opportunities and outcomes. To make a substantial difference to people's lives, such approaches often need to have a clearer focus on the economy, as well as the right mix of investment and support. For example, New Labour's flagship New Deal for Communities sought to involve and empower communities in deprived neighborhoods, but its holistic place-orientated objectives were found to have led to mixed results (DCLG 2010). In response, towards the end of its time in government, New Labour refined its approach and shifted to place-based interventions with a clearer economic focus, most notably through the Working Neighbourhoods Fund and Local Enterprise Growth Initiative (HMT, BERR and DCLG 2007).

A growing body of evidence from around the world demonstrates that, with the right help, strong and empowered communities can be incubators and platforms for local wealth creation in otherwise challenging circumstances. A recent evidence review by JRF suggests that when work, skills and enterprise initiatives are mediated through participative, empowering communities, they achieve stronger outcomes. There is also evidence to suggest that the social capital in place-based communities can be instrumental in animating and sustaining some of the economic activity that is needed to increase local labour market demand and generate new 'sticky' wealth in deprived places. And finally, strong place-based communities help make places better to live in. This can mitigate and even begin to reverse

some of the negative feedback loops in concentrated deprivation (JRF 2016). It is instructing that of all New Labour's place-based interventions, the one that worked in and with communities to home-grow enterprise (the Local Enterprise Growth Initiative) was found to have delivered the best outcomes for individuals, local economies and the Exchequer (DCLG 2010).

Furthermore, community can be a means for people on low incomes in deprived places to gain much needed agency, ownership and control in the economy. Through various forms of economic and social co-operation local traders, workers and residents can increase their resilience and efficacy, often through co-ownership and control of assets, infrastructure and enterprise (Co-operatives UK, 2019). Crucially, more distributive patterns of ownership are increasingly understood as a means of creating a genuinely inclusive economy (for example, IPPR 2017 and Respublica 2018).

So, while there are spatial barriers to inclusive growth within cities/regions that should be addressed, the main reason to make communities in deprived neighborhoods full partners in local economic strategy is the latent power and opportunity they contain. Strong and empowered communities should particularly be recognized for their potential to be incubators and platforms for resilient and locally beneficial businesses, including co-ops and community businesses that distribute ownership, control and wealth.

Community economic development

The process through which communities become leading partners in local economic strategy and gain greater agency, ownership and control in their economic lives, is often referred to internationally as 'community economic development'. Community economic development (CED) is a process through which people living, working and running businesses in an area work together through a community partnership, to effect change in the economy so that it better supports their shared aspirations in terms of opportunities, livelihoods, enterprise, local resources, markets and wealth flows. It often involves broadening ownership and control of assets and enterprise in a place, which is where co-ops have a particularly practical function (Co-operatives UK 2017).

CED is a long-term transformation that involves grassroots organising, capability building, public and private investment, enterprise and a significant devolution of power to community-led partnerships (called here 'CED Partnerships'). The CED cycle involves: CED Partnership formation; profiling the local economy; building CED Partnership capabilities; co-producing a CED Plan; sourcing money, technical assistance and partners to implement the CED Plan; implementation; monitoring and evaluation. CED Partnerships require constant *facilitative* support across the cycle.

Through CED, people in deprived neighborhoods can mobilise the power of their communities to:

- Improve the economic base in their neighborhoods
- Influence the development of the wider city/regional economy so that it works better for them
- Access and create opportunities for better livelihoods in their travel to work area
- Strengthen the community infrastructure in their neighborhoods
- Assert some control over the evolution of their neighborhoods

Critically, CED can play a significant role in helping local leaders to overcome the four challenges listed earlier, in the following ways:

- **Information challenge:** Communities in deprived neighborhoods are stores of extremely valuable information that, through CED, can enrich the evidence-base for inclusive economic programmes.
- **Legitimacy and efficacy challenges**: CED can engender the trust, participation, take-up and endeavor of people in deprived communities. CED empowers people in deprived communities to effect the change that local leaders cannot.
- **Market challenge:** People acting together, through community and forms of economic co-operation, can give themselves more power and agency in markets and supply chains. CED is the means by which people act together to 'reset' aspects of market reality in their favour.

There is a growing body of practice and evidence to help local leaders incorporate CED into their inclusive growth strategies. To succeed, CED needs long term commitments in funding, technical assistance and policy support (Co-operatives UK 2017). The SPF provides an excellent opportunity to do just this. Therefore, whereas current government policy direction is for LEPs to receive and allocate 100 percent of the SPF, we believe around 20 percent of the SPF should be placed in the hands of more local CED Partnerships.

Putting CED into the context of Local Industrial Strategies

The government has said that the SPF will be used by local leaders to strengthen the five foundations of productivity: ideas, people, infrastructure, business environment and place. So, what does the CED approach to inclusive economic strategy look like through this lens?

The table below provides illustrative examples to answer this question. But we must caution that every person, place and community have their own unique challenges, opportunities and aspirations, so these examples are for illustrative purposes only, not for detailed programme design.

UK Industrial Strategy Five Foundations	Common challenges	CED solutions
People (on low incomes, often living in areas of concentrated deprivation)	• skills and experience mismatched with the limited opportunities available in their travel to work area • limited travel to work area • alienation • negligible savings or assets • wellbeing issues • caring responsibilities	• Community building, with CED as a key catalyst for participation and a source of funding and support (e.g. community organising; Big Local; Empowering Places) • Skills and labour market support tailored to local needs and aspirations, and to local opportunities and challenges, co-designed with and mediated through strong, empowered communities / community organizations (e.g. programmes supported by the Working Neighborhoods Fund) • CED Partnerships shaping city / region initiatives to increase the supply of decent work in their travel to work area, including by bringing employers and local communities together to create inclusive recruitment pathways (e.g. The Wisconsin Regional Training Partnership)

Business environment (in areas of concentrated deprivation and the travel to work areas of the people who live there)	• limited commercial opportunities, especially of the sort that can generate competitive ROI • under-supply of appropriately skilled people (see People) • lack of infrastructure for business (see Infrastructure) • negligible capital for start-up and growth • business knowledge and knowhow inaccessible / unavailable	• Business support focused on 'home growing' locally owned, resilient and local wealth building businesses that provide decent livelihoods and meet local needs such as worker co-ops, small businesses and community businesses (e.g. Preston Community Wealth Building; Local Enterprise Growth Initiative) • Support for business-to-business co-operation that strengthens local businesses in markets and supply chains (e.g. Eastbourne Fishermens' CIC; Regather Sheffield) • Development of city/region-wide CED finance intermediaries, combining public funds (including SPF and dormant assets), community investment (including community shares) and local savings (community ISAs) (e.g. Headingly Development Trust; BCRS Business Loans) • CED Partnerships participating in initiatives to strengthen local supply chains within the city/region, so that opportunity and wealth creation can be transmitted from star businesses and sectors, and public sector anchors, to other parts of the local economy (e.g. Preston Community Wealth Building)
Infrastructure (in areas of concentrated deprivation and the travel to work areas of the people who live there)	• Lack of fit for purpose business sites • Lack of accessible, fit for purpose digital infrastructure • Inadequate public transport links • Lack of fit for purpose community assets • Limited housing options that meet need and aspirations, or that provide a springboard for a better life	• Development of business sites informed by CED Plan, mobilising community, often involving community ownership (e.g. Portland Works, Sheffield) • Developing and restoring assets of community value, often via community ownership (e.g. Govanhill Baths) • Support for business-to-business co-operation to co-invest in productivity enhancing inputs/infrastructure (e.g. Tameside Digital Infrastructure Co-op) • CED Partnerships participating in city/region decisions on local transport to ensure needs identified in CED Plans are met • Co-operative and community housing initiatives such as community land trusts, social and private housing co-ops, mutual home ownership societies (e.g. Leeds Community Homes)
Ideas (in local businesses and business community)	• Poor leadership and management in local businesses • Under-investment in people • Under-diffusion of productivity-enhancing innovations, systems, practices, strategies and technologies	• CED Partnerships helping to create networks for innovation diffusion among local businesses and organizations • Support for business-to-business co-operation to co-invest in productivity enhancements (e.g. Berry Gardens Co-operative)
Place (neighbourhoods that record high levels of deprivation)	• Disconnected from local wealth creation • 'Leaky' local wealth flows • Unattractive for siting businesses that can grow local wealth	• CED uses place as the key context within which to mobilise communities (people), who have the latent power to strengthen the other three foundations (ideas, infrastructure and business environment) • CED makes place, and the people who live there, the key focus; other foundations (ideas,

	• Deteriorated public realm • Lack of infrastructure for business and community	infrastructure and business environment) are addressed through this lens of people, in their specific economic geographies

Practical examples of CED activity

CED approaches are spreading across the UK but at present this activity can best be characterized as piloting and action research. Most programmes are rather limited in terms of funding and tend to be constrained by a lack of support within the wider political economies within which they operate. Nevertheless, these programmes are essential in demonstrating to policymakers how CED can operate in practice and what is possible.

Current ongoing examples include:

- **Empowering Places:** Managed by Co-operatives UK and funded by Power to Change, this programme provides funding and resources to seven community-based 'catalysts' over five years to develop community business with the aim of boosting local economies, working in some of the most deprived neighborhoods in England.
- **Together Enterprise:** Managed by the Co-op College and funded by The Co-op Group, this programme aims to empower people to set up their own co-ops in Rochdale.
- **Scotland's Improvement Districts:** Scottish Government is supporting traditional 'Business Improvement Districts' to evolve into more innovative, flexible and holistic partnerships of local businesses, community groups and anchor institutions, to deliver the ambitions of local businesses and communities.
- **Big Local:** Many Big Locals are working to implement community-led economic plans, such as Ambition Lawrence Weston, that is working to develop a community-based hub for skills and labour market support, while also building links between the community and employers in the travel to work area.

Furthermore, between 2015 and 2017 the then-DCLG funded a CED action research programme that provided a blend of grant and technical support to 71 communities across England, to help them produce a well-supported, dynamic and deliverable local economic plan. This action research has deepened understanding of how communities can engage with and start to resolve their own economic issues (Co-operatives UK 2017).

Designing CED into the UK Shared Prosperity Fund

Government's inclusive economy aspirations will be better served if around 20 percent of the SPF is allocated to CED Partnerships operating at a sub-LEP level (in England), prioritizing the participation of the most disadvantaged communities in the UK.

As every person, place and community have their own unique challenges, opportunities and aspirations, great care should be taken not to be overly prescriptive about how CED Partnerships operate and what they invest in. But government will need to set rules for the 'quality control' of CED Partnerships and their CED Plans.

Government should set criteria for recognizing CED Partnerships. CED Partnerships should be constituted of community organizations and active residents, local businesses and, in a *facilitative* role, local authorities. The exact construction of CED Partnerships should be allowed to vary somewhat from place to place. Where possible CED Partnerships should start with existing initiatives that have significant community participation, for example Big Locals and the Empowering Places 'catalysts' in England, and new Improvement Districts in

Scotland.

In some cases, we suggest a lead organization within a partnership may be designated as the receiver and administrator of SPF money. But policymakers should also be open to the idea of new light-touch partnership vehicles being established, perhaps drawing on the example of Scotland's Improvement Districts. The membership-based community benefit society form has a lot to offer, as this option would allow the SPF to be combined with proven community investment models and participative multi-stakeholder governance.

Funding for CED Partnerships will need to patient, flexible, low burden and provided on long-term cycles. In the first instance it should be held by the hosting LEPs or Combined Authorities (in England) in a ring-fenced pot, to be distributed in two tranches. The first tranche should be seed funding to help establish and develop CED Partnerships and to assist with the development of a CED Plan. Recent action research and the ongoing Empowering Places programme will provide invaluable lessons for how much seed funding is required and over what time scales. Certainly, communities should be given no less than £5,000 and two years to establish their CED Partnerships and agree their first CED Plans (Co-operatives UK 2017).

Then, once a CED Plan is agreed with the LEP/Combined Authority (in England), the much larger second tranche should be released to fund its implementation. CED Plans should meet certain conditions in terms of quality, not least in how they complement *and influence* Local Industrial Strategies. CED Partnerships should be encouraged to leverage other spending in their area, including LEP-controlled SPF money (in England), where this can help implement their CED Plans. They should also seek to augment the SPF with private and community investment. In some places, it will be possible to release the second tranche more quickly than in others. Communities should be afforded *at least* five years to implement their first CED Plans.

CED cycles should come into alignment with those of the hosting LEP or Combined Authority (in England), at least when it comes to the SPF.

Once up and running, CED Partnerships should be given a powerful role in holding LEPs to account (in England) and in informing the future development and implementation of strategy at the city/regional level.

The importance of legitimizing the role CED Partnerships and their CED Plans in local political economies cannot be overstated. Where local authorities are involved, it should be through their economic development functions alongside their community engagement functions. And the power relationship between LEPs (in England) and CED Partnerships must become one of a collaborative, complementary joint venture. These changes in roles and relationships between bodies can be difficult, but control of SPF money will itself act as a significant catalyst in effecting the necessary changes.

Devolution

Government has said that the design of the SPF will respect devolution. It may be that Westminster reserves the power to make very high-level decisions, as the EU Commission does now for EU funds, and then devolves a significant amount of decision-making to LEPs and Devolved Administrations. It is also possible that where City Deals are in place outside England, a degree of SPF devolution will be directly from Westminster to these authorities.

The core arguments and proposals in this paper are applicable in any case. Devolved Administrations and City Regions will need to empower place-based communities in the governance of the SPF and harness their latent power to address barriers to inclusive growth.

Scotland is particularly well placed to use the SPF to support CED because Scottish Government has begun piloting place-based and community-led approaches. In particular, its Improvement Districts could be a great blueprint for CED Partnerships.

Summary and next steps

The SPF provides a golden opportunity for government and local leaders to support the evolution of a more inclusive economy. Evidence suggests that a good way to ensure economically disadvantaged people in deprived places benefit from the SPF will be to empower them in its governance, while simultaneously harnessing the power of their communities to address the economic, social and geographic barriers to inclusive growth that operate within their region.

Community should be understood by policymakers as a foundation of shared prosperity, to be strengthened alongside infrastructure, place and so on. But we should learn the lessons of the past and ensure place-based community empowerment has the right investment, support and *focus* to catalyze deep and lasting improvements in economic opportunities and outcomes. Crucially, with the right support, communities have the potential to be incubators and platforms for inclusive wealth creation in otherwise challenging circumstances. And community can also be a means through which people gain much needed agency, ownership and control in the economy.

Around 20 percent of the SPF should be ring-fenced for a process known internationally as community economic development (CED), prioritizing communities in the most deprived parts of the UK. CED is a process through which people living, working and running businesses in an area work together through a community partnership to effect change in the economy, so that it better supports their shared aspirations in terms of opportunities, livelihoods, enterprise, local resources, markets and wealth flows.

CED Partnerships should be established at a sub-LEP (in England) level and be made up of local businesses, community organizations, residents and, in a facilitative role, local authorities.

This part of the SPF should be distributed in two tranches. First, seed funding should be provided to establish CED Partnerships and develop CED Plans, in a process taking up to two years. Then, once CED Plans are agreed, a much more significant second tranche should be released to fund their implementation, in a process lasting at least five years.

CED Partnerships should also be given a powerful role in holding LEPs (in England) to account and in informing city/regional economic strategy.

In the coming consultation on the design of the SPF we ask government to:

- Confirm long-term, cyclical and ring-fenced SPF allocation for CED, of around 20 percent of the total SPF, prioritizing the participation of the most deprived communities in the UK
- Set high-level principles for the ‘quality control’ of CED Partnerships and their CED Plans

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