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The Wealth Within

The ‘Preston Model’ and the new municipalism

Alan Lockey
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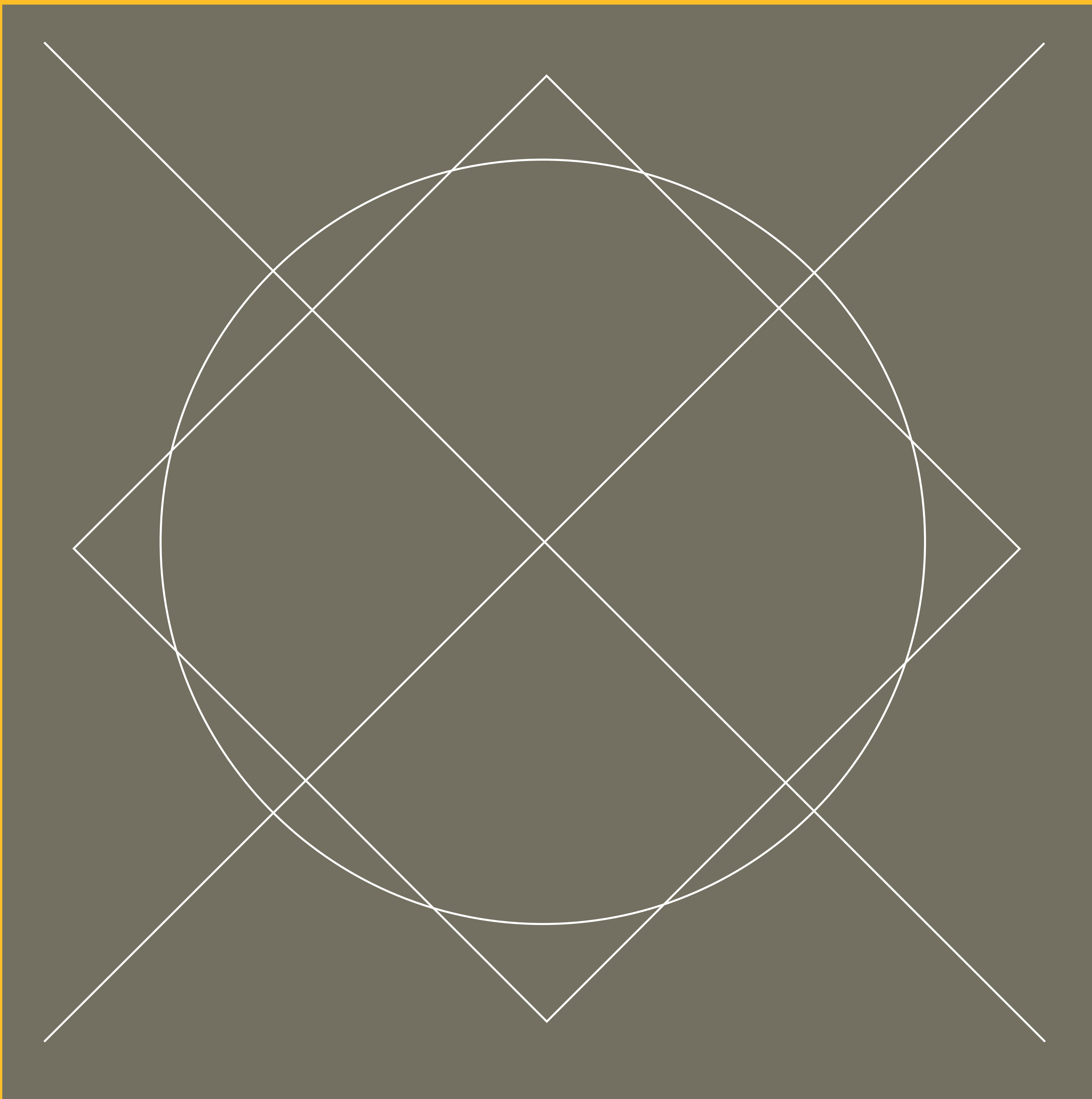

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Contents

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All errors and omissions are entirely our own.

Alan Lockey and Ben Glover, May 2019.

Executive Summary

Britain is arguably the most centralised country in the world. Political, financial, media and cultural power are all concentrated heavily in London and economically the UK is an outlier in terms of regional inequality.[1] Quantifying the impact these power disparities have upon our political culture is difficult but the feeling that a fairer geographical distribution of wealth and power has a role to play in healing the country's political wounds is difficult to shake. Yet as recent policy history shows, this is easier said than done. One of the lessons of the New Labour era should be that even historically unprecedented levels of redistribution do not necessarily result in satisfactory outcomes, politically or economically, for Britain's poorer communities. Furthermore, the shift towards an economy dominated by intangible investment may accentuate the clustering of success in Britain's already successful metropolitan areas. This dynamic requires us to radically rethink the orthodox approach to place-based inclusive growth. We need a policy toolkit that focuses upon sustainable wealth creation in those communities themselves.

For this reason, the Lancashire city of Preston has recently come to wider political attention. Starting after the financial crisis Preston's civic leaders decided to experiment with a radical 'community wealth building' model that aspires to generate more resilient economic growth. It is perhaps wrong to describe community wealth building as a 'model' – like any place-based policy approach, it is more a toolkit that adapts to local circumstances and civic culture. But for the purpose of this report – which seeks to explore both its application in Preston and its wider potential – we have defined it an approach guided by a belief that retaining more civic wealth within a locality can boost growth and economic resilience in that particular area. Specifically, in Preston we identified five different components to the city's community wealth building approach:

- Rooted Anchor Institutions – identifying significant economic actors with a stable presence in the area and focusing economic activity around them.
- Localist Procurement – which aims to encourage anchor institutions to use their purchasing power to influence their pattern of spending so that more wealth stays within Preston.
- Localist capital investment – to seek out new sources of patient capital so investment flows can be democratically directed and focus on keeping more wealth in Preston.
- Worker Cooperatives – to nurture new worker cooperatives to meet gaps in anchor institutions' supply chains that cannot currently be met locally.
- Municipal Ownership – to explore and promote new models of local public ownership.

Drawing on the existing evidence base, we found there is a long history of anchor institutions being utilised successfully for economic development; and good evidence that worker cooperatives can assist in strengthening both the financial resilience and innovation diversity of a local economy. We were unable to find sufficient evidence to conclusively answer whether a 'localist' procurement strategy will always benefit the local economy as the evidence base is currently too thin. On the other hand, we found that Preston's performance in recent years on a number of important metrics – deprivation, employment, wages, productivity – correlates well with the adoption of the model, supporting the conclusions of other Demos recent research into inclusive growth.[2]

Grounded in our evidence review, we support two components of the Preston model – nurturing worker cooperatives and the use of rooted anchor institutions – in and of themselves. Pending more practical evidence, we are theoretically attracted to the broader argument that the flow of wealth in an area can impact significantly upon local multiplier effects and therefore are supportive of Preston's localist procurement technique. We believe it best to support or oppose any ownership proposal on a case by case basis but accept that more municipalisation is likely to be a good thing overall for Britain's economic democracy. However, we have some concerns about the use of pension funds as localist capital investment sources as we would not want to see a confusing dilution of the primacy of delivering value for policyholders.

Overall, we are supportive of community wealth building and the Preston model for democratic reasons. Community wealth building has lit an intellectual fire that is undeniably exerting a positive influence on civic imagination across the country. Preston's approach represents a reimagination, born through adversity, of what is possible in terms of local economic stewardship. We want to see this – and other experiments in creative civic leadership deepened – as part of a new municipalism that can devolve meaningful economic power and help build a cohesive, flourishing demos from the bottom-up.

We recommend eight polices that could help expand the experiment and accentuate community wealth building's approach:

Recommendation One: National Policymakers should trial and fund a place-based Community Wealth Zone scheme, equivalent to Enterprise Zones, where economic rules vary from areas outside the zone. As well as investment, Community Wealth Zones could include an expansion of Preston's 'localist' procurement policy – and this should be included as a negotiating objective for the UK's future relationship with the EU.

Recommendation Two: On leaving the EU, Britain should take steps to ensure that its new state aid framework allows for the transfer of publicly owned assets to local authorities.

Recommendation Three: Part of the money committed for replacing the EU Regional Development Fund should be used to set-up a £1bn Co-operative Resilience Fund in order to ensure smaller worker cooperatives have decent capital access.

Recommendation Four: The Government should set up a Commission that seeks to establish where powers returned from the European Union will reside. Its guiding aim should be the principle of subsidiarity.

Recommendation Five: The Social Value Provisions of the 2012 Public Services Act should be extended to all public procurement, including works and goods.

Recommendation Six: The Government should seek to promote fiscal retention of taxes to local authorities, whilst monitoring the impact this has on social justice. Local authorities should also enjoy tax raising powers and the Government should decentralise current restrictions on local government financing, removing yearly budget cycles and allowing for more flexibility on investment financing.

Recommendation Seven: Working with civic leaders, the Government should establish and underwrite a network of democratically owned 'Sparkassen-style' local savings banks as a route to patient capital investment. The first institutions should be established in designated Community Wealth Zones.

Recommendation Eight: The Government should encourage the formation of co-operatively owned land banks, based on the American land-banking movement, in Community Wealth Zones, providing guidance and capital where necessary.

Introduction:

The search for equitable wealth creation

Early in his political career, Aneurin Bevan had a stump speech about power in Britain. 'When I get older', the young Bevan would say, 'the place to get to is the council. That's where power is. So, I worked hard and, in association with my fellows, when I was about 20 years of age, I got on the council. Then I discovered when I got there that power had been there, but it had just gone'.[3]

Where it had gone was Westminster. And what Bevan was describing was the slow yet unmistakable emasculation of local democracy in mid-20th century Britain. Fast forward to 2019 and Britain stands as arguably the most centralised country in the world - even France, the spiritual home of dirigisme, turned its back on centralism in the early 1980s. Here, in contrast, we see political, financial, media and cultural power concentrated heavily in one city region, with vast economic inequities opening up between London and the rest. And whilst the UK is not as severe an outlier on regional inequality as it is often assumed, it still exhibits the biggest gap of any European country between the average living standards (disposable household income) in its richest and poorest regions (Inner London and the West Midlands, respectively).[4]

Quantifying the impact these power disparities have upon our political culture is difficult. Nevertheless, it is hard to resist the idea that resentment towards inequality – of power and respect as much as material inequity – and London's dominance may have stoked recent outbursts of populist anger. Yes, the Brexit vote was a complex mix of culture, history, foreign and economic policy – drawing firm conclusions from it is, as many politicians have found, a perilous task. But to look at a map showing the various remain and leave area is to be struck by a strong correlation with the country's economic geography; between economically successful (though often still deeply unequal and impoverished in parts) metropolitan areas on one hand, and everywhere else on the other. The feeling that a fairer geographical distribution of wealth and power has a role to play in healing the country's political wounds is difficult to shake.

Yet as recent policy history shows, this is easier said than done. After all, the current political turmoil comes not too hard on the heels of the most redistributive government in British history. That should serve as a warning that centrally directed redistribution, though undeniably helpful, is not enough. Worse still, recent economic research by Jonathan Haskel and Stian Westlake has shone a light upon how the shift towards an intangible economy – where investment in intangible assets outpaces investment in tangible ones – can encourage yet more clustering of success. This is vital work and their book Capitalism without Capital makes for compelling reading.5 But the depressing reality it implies is that trying to create a fairer distribution of wealth is akin to swimming against the economic tide. Certainly, there can be no turning the clock back to a tangible investment era – even manufacturing is shifting towards an intangible heavy future.

This move towards an intangible future requires us to rethink the orthodox approach to place-based inclusive growth policy. The dominant emphasis – upon inward investment, infrastructure, skills mobility and a fetishisation of national productivity over all other metrics – may in fact accentuate socially divisive agglomeration effects. Of course, we still need infrastructure, higher skills, productivity growth and investment - these remain economic fundamentals and, more importantly, can be powerfully transformative for individuals. But for specifically place-based growth in poorer areas we may also need to look to different, complementary toolkits. In short, if we are to secure a dignified and prosperous role in a global economy for Britain's poorer areas, we need a policy toolkit that focuses upon sustainable wealth creation in those communities themselves.

For this reason, the Lancashire city of Preston has recently come to wider political attention. Starting after the financial crisis Preston's civic leaders decided to experiment with a 'community wealth building' model that, amongst other things, encourages the promotion of worker cooperatives and a localist approach to procurement. Following the adoption of the model Preston has performed strongly across a range of social and economic indicators – in Demos' annual Good Growth for Cities Index it was the most improved city in the entire country.[6] As such, the 'community wealth building' model is now garnering interest from across the political spectrum.

The purpose of this report is to assess this model and explore how it could begin to answer arguably the most pressing political question of our times: how can our communities, and thus the country, create wealth from the bottom-up?

The report explores the Preston model in five chapters:

Chapter One provides a brief introduction to Preston's history, economy and demography;

Chapter Two studies the theory of change behind the Preston model, introducing its distinctive approach to community wealth building alongside a body of community wealth building case studies from around the world;

Chapter Three examines the economic evidence base for community wealth building and its primary components, as well as a more in-depth look at Preston's economic fortunes since community wealth building's introduction;

Chapter Four assesses the component parts of Preston's approach at a technocratic level, presenting Demos' conclusions;

Chapter Five explores how the community wealth building toolkit might be expanded, making eight substantive policy recommendations.

This research has followed a mixed method approach, drawing upon a comprehensive literature review that analyses the evidence base for community wealth building and associated issues; a series of ten expert interviews with people involved in place-based policy or the Preston model itself; and a focus group with citizens in Preston that explored their attitudes towards the city's economic approach.

01.

Preston, past and present

The Next Saint Petersburg

In history's widescreen lens, much about Preston's past may seem unexceptional. Although the city has older roots – in the Domesday Book Preston is already a relatively large and prosperous town – it is the Industrial Revolution that radically transforms its economic fortunes. And like many fellow 'mill towns' in England's North West, its prosperity rested primarily upon cotton, textiles and heavy industry. Indeed, Richard Arkwright, inventor of the first water-powered 'jenny' loom that transformed the textile trade, was born in Preston and it seems likely that Charles Dickens took the city as the chief inspiration for Coketown – "a town of red brick, or of brick which would have been red if the smoke and ashes had allowed it" – the inhospitable setting for his reformist novel Hard Times.[7] Certainly, Dickens had few good things to say about Preston, describing it to his biographer John Forster as "a nasty place" with "very little in the streets to make the town remarkable". [8]

Yet Dickens, on a rare sojourn out of London, should have looked a little harder. For he need not have scoured Preston for long in order to find the usual peculiarities of place that can fire a distinctive civic pride. Granted a Guild Merchant Charter in 1179 and helpfully located on the River Ribble, the industrialising Preston saw itself as a trading city to rival nearby Liverpool or Manchester, rather than its local Lancastrian neighbours. In 1892 this heritage was cemented in bricks and mortar with what were then the largest inland docks in Europe - the Albert Edward Basin. Thus, Preston's trading identity was furnished with a viable Irish Sea route to rival the under-construction Manchester Ship Canal.

However, by then commerce and cotton were not the only things placing Preston on the map. When the Football League was founded in 1888, Preston North End were its first champions, going on to dominate English football's early years as an organised sport. Even today Deepdale – North End's home – lays claim to being the oldest football stadium in the world, housing the original National Museum of Football until 2010 (when, in a move emblematic of austerity-driven centralisation, it moved to Manchester). The city had by then earned a reputation as an early adopter of technology too – in 1815 it became the first city other than London to be lit by gas, in large part due to the entrepreneurship of the local Preston Gas Company.[9] The Institution for the Diffusion of Useful Knowledge – a higher education organisation that would eventually become the University of Central Lancashire – was founded in 1828.[10] And as the city's ferocious economic expansion brought with it worker exploitation and the usual array of Victorian social ills, Preston became known as a hotbed of radical labour activism. In fact, no less a figure than Karl Marx (referencing the failed Decembrist revolution of the 1820s rather than an unusual gift for clairvoyance) described Preston as the "next Saint Petersburg" during a visit in the 1850s.[11]

This inheritance – of radicalism, technological innovation, trade and (a somewhat faded!) footballing glory - all feature in Preston's contemporary civic identity. Almost certainly it provides some of the soil for the Community Wealth Building (CWB) strategy too. After all, no place-based policy initiative can truly germinate successfully without a deep understanding of the civic culture - past and present – of its host.

Alas, the more depressing backdrop to this culture – and indeed the whole CWB approach in Preston - is something that has become as run-of-the-mill as the generic 'Coketown' of Dickens's imagination. Because Preston, like nearly all the other 'Coketowns' in the North West and indeed the developed world, has also suffered the all too familiar trajectory of late twentieth century industrial decline. We all know the script by now: the factories close, unemployment rises, the dignity in labour and community standing those jobs provided dries up, before all the attendant ills of poverty and social decline gnaw at the societies that grew up around them.

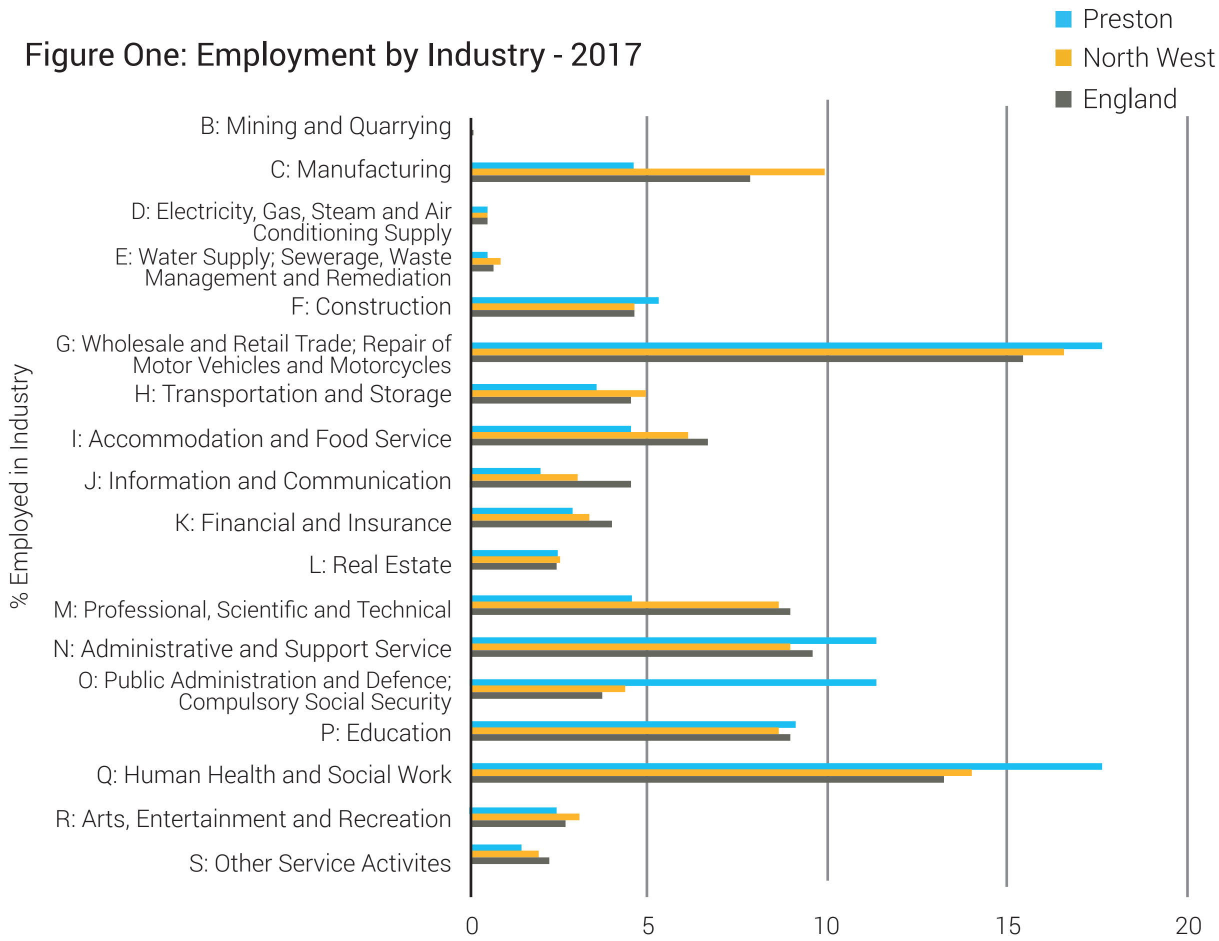
This process of deindustrialisation was fairly steady throughout the twentieth century in Preston, before picking up pace in the early 1970s and again in the late 1980s.[12] Yet the outsized contribution that manufacturing had on the city's economy meant that the nationwide recession of the early 1980s hit the North West and Preston particularly hard.[13] Subsequently, Preston has struggled, even in the long-term to adapt to this economic change, sharing in its misfortune with other nearby towns such as Blackburn and Burnley. This trend was accelerated – but crucially not caused - by the Financial Crisis. Indeed, even in those more prosperous pre-cash times, Preston struggled to reassert itself as a regional economic hub as growth in Britain increasingly concentrated in large metropolitan areas – in London and the South East most obviously at the national level, but regionally in Preston's big-city neighbours, Liverpool and Manchester.

Contemporary Coketown

Despite this, Preston has many characteristics favourable for local economic development. It serves as a critical junction for many of the major North-South and West-East railways and motorways, and is the administrative centre for the county of Lancashire. Its university, the University of Central Lancashire (UCLAN) has grown to be the sixth largest in the UK with 33,000 students and the city is home to a large hospital, the Royal Preston. Major companies like BAE systems and the Westinghouse Electric Company also have large facilities nearby, whilst for better and worse, the city could be well positioned to take advantage of a nascent shale gas industry. That said, Preston's modern economy is still dominated by a handful of key industries: human health and social work, wholesale and retail trade, public administration, defence and education. Manufacturing's decline is near total – the sector employs just 4.7 per cent of jobs in Preston, far below the 9.9 per cent average of the North West and the 8.1 per cent average of England (see Figure One).

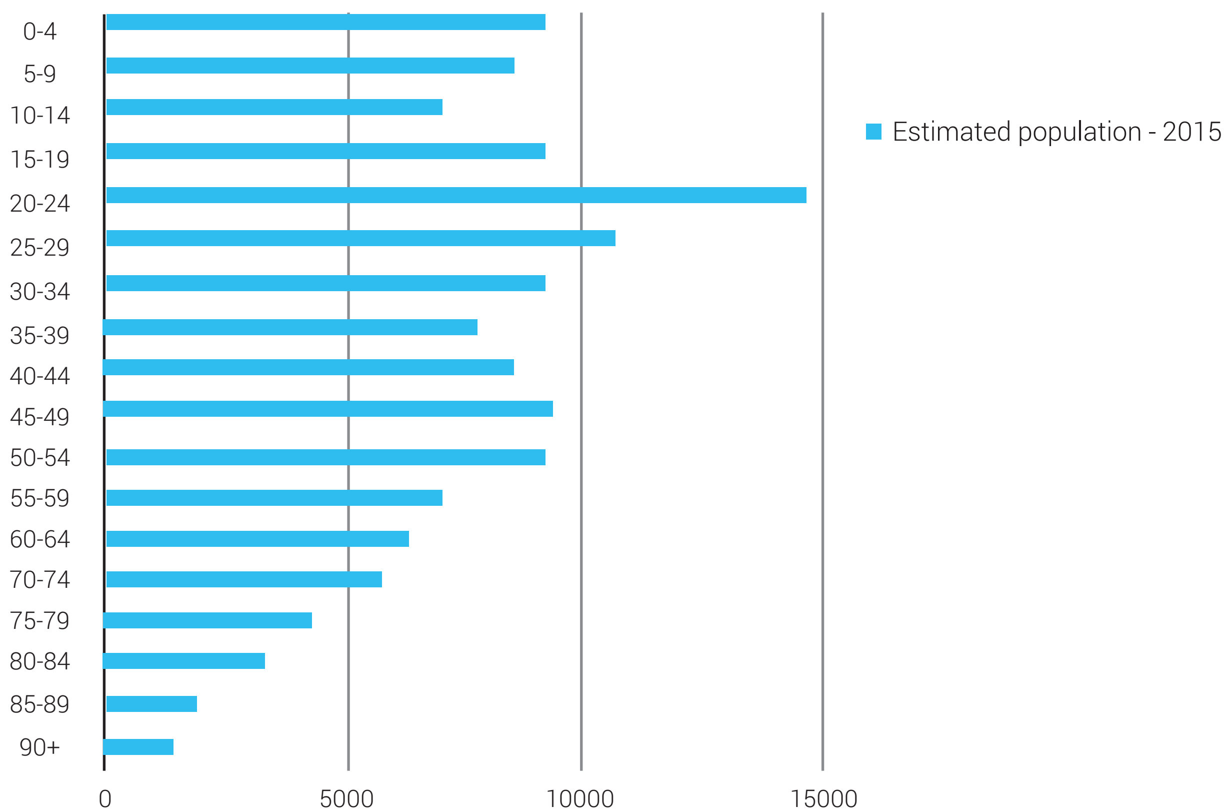
Preston's demography reflects recent twists and turns in the city's economic prospects, with periods of relative economic growth – such as the years preceding the financial crash - characterised by strong population rises before stagnation and even decline during the austerity years. Nonetheless, we can paint a relatively clear portrait of the city's demography: in 2017 it had just over 141,000 residents, with a working-age population of around 92,000. The age distribution of residents shows the clear influence of UCLAN, with a spike in the 18-24 age group (see Figure Two).

Figure One: Employment by Industry - 2017



Source: ONS, Business Register and Employment Survey 2017[14]

Figure Two: Preston Age Distribution - 2015



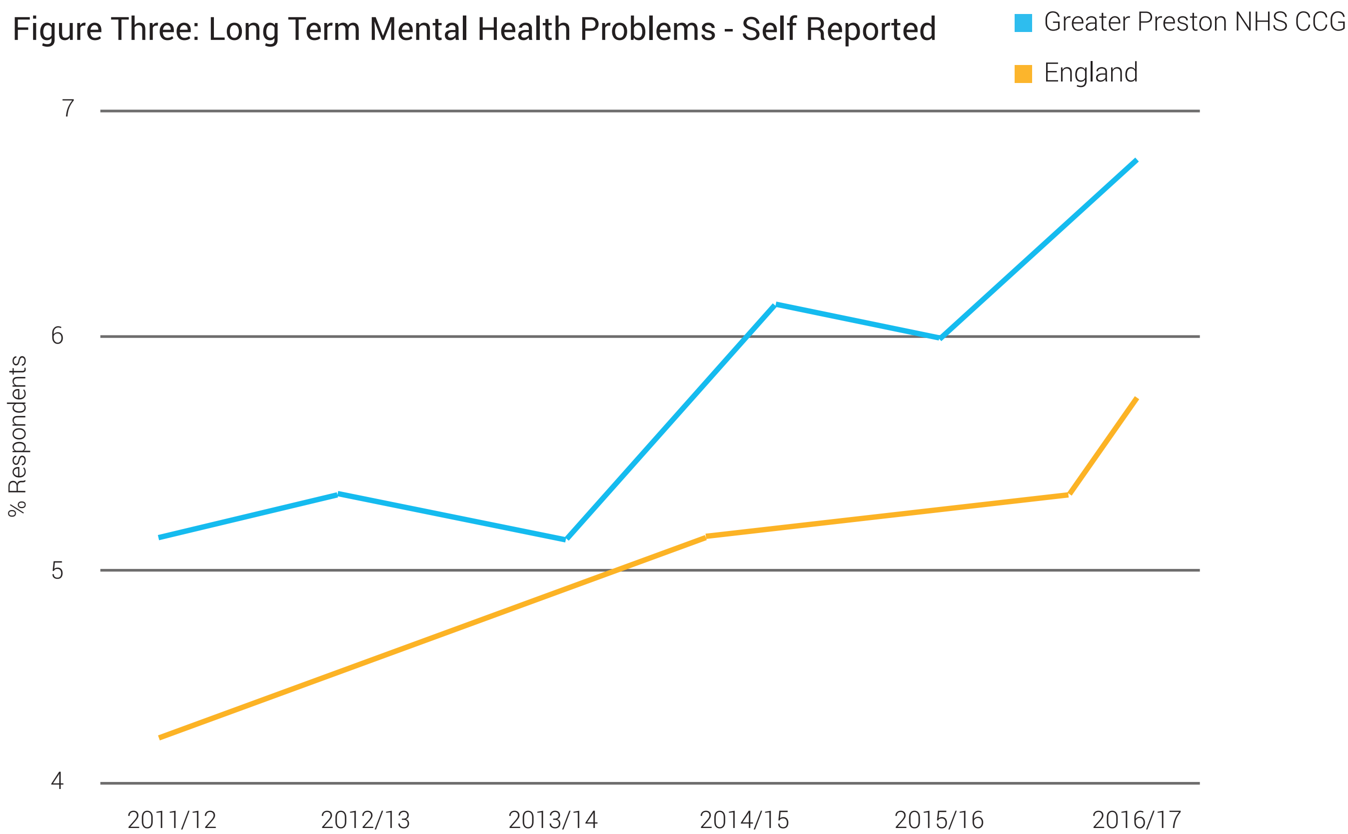
Source: ONS, Mid-Year Population Estimates 2016[15]

Indeed, whilst the university's 33,000 students constitute a significant proportion of Preston's population, they are best characterised as a migratory group, representing the biggest flow of people into the city. Overall, Preston benefits from this flow, with a net positive number of students remaining in the city and work after graduation according to 2016/17 data.[16] However, this is balanced by the many Preston-born students who choose to go elsewhere for university and remain there, alongside those who do not go to university but still leave Preston for work. Taking all this into account, Preston still gains a net number of graduates per year, though only by a very slim margin. Nonetheless, this has bolstered the number of degree holders in the city, providing a promising source of young graduate social capital.[17]

Arguably, one of the most noticeable characteristics of contemporary Preston is its poor performance on a number of health indicators. Life expectancy for both men and women, though rising, has consistently remained below the average for both England and the rest of the North West averages. There is now a gap of almost two years between Preston and England for life expectancy of both men and women. In addition, the under 75 mortality rate is 421.3 per 100,000 residents, compared to the England average of 333.8.[18]

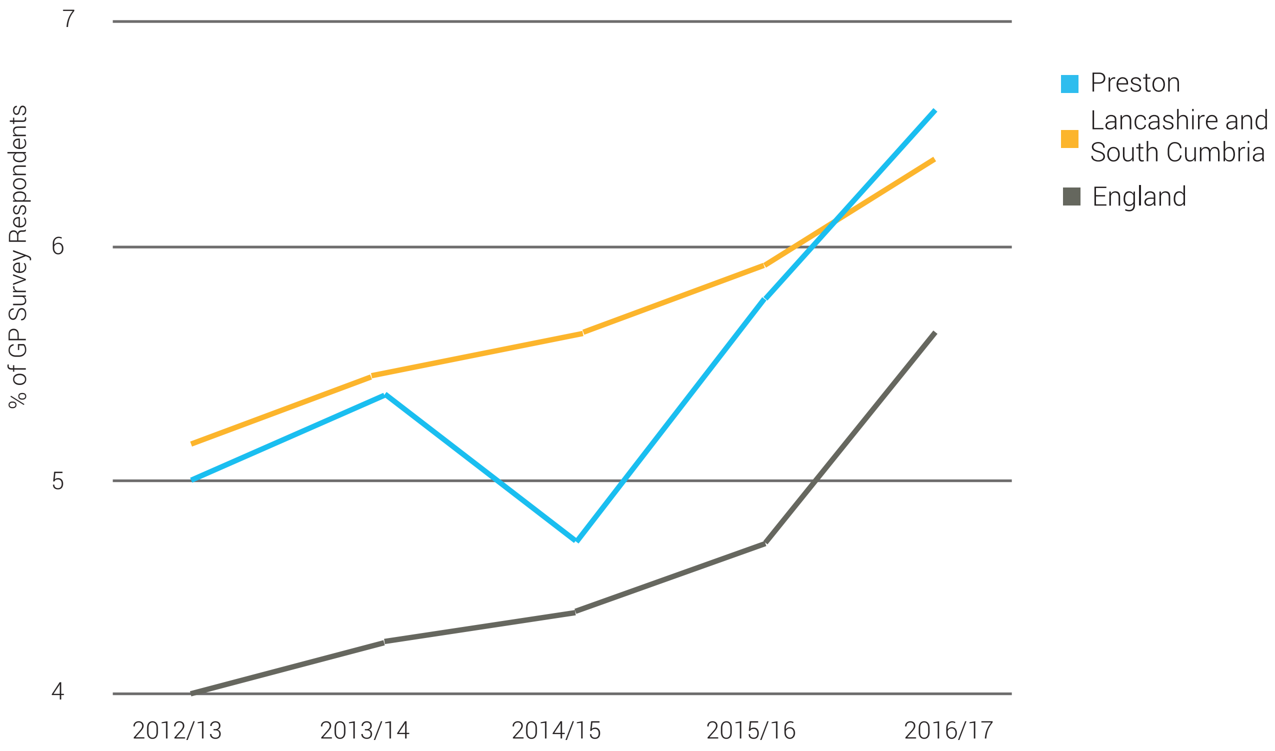
Mental health indicators also depict a bleaker picture than most of England, with residents reporting higher prevalence of long-term mental health issues and rates of depression and anxiety (see Figures Three and Four). The suicide rate in Preston is considerably higher than both the average for the North West and the rest of England at 13.7 per 100,000 residents, compared to England's 9.9.[19]

Figure Three: Long Term Mental Health Problems - Self Reported



Source: Public Health England, Long-term mental health problems (GP Patient Survey)[20]

Figure Four: Depression and Anxiety Prevalence - Self Reported



Source: Public Health England, Depression and anxiety prevalence (GP Patient Survey). [21]

More positively, the people of Preston appear to hold real pride in their city and enjoy living there. In a 2012-13 survey of Lancashire county residents, over 90 per cent were satisfied with Preston as a place to live.[22] Though only 30.5 per cent of residents expressed satisfaction with the way things were going in their area, this was significantly higher than the 19 per cent satisfied with Lancashire's trajectory and the mere 13.3 satisfied with the UK's. Residents noted, however, that the city still has a way to go in improving its prospects, with just 35.2 per cent positive about their finances and only 19.9 per cent satisfied with local job prospects, no doubt reflecting the city's long-term economic misfortune.[23]

02.

What is the ‘Preston model’?

Chapter One provided a brief introduction to Preston's history, economy, demography and civic identity. In contrast, this chapter focuses directly on the matter in hand – what provided the impetus for Community Wealth Building (CWB) in Preston and what is the distinctive Preston version of it? In fact, what exactly is Community Wealth Building itself?

What is Community Wealth Building?

For a number of reasons this question is less straightforward than it may first appear. The sheer breadth of distinctive CWB approaches being developed around the world means the 'philosophy' – for want of a better word – defies easy characterisation (and indeed many of its most passionate advocates positively wince at the description of the approach as a 'model' for its implicit off-the-peg connotations). This is not just because CWB, like any place-based policy approach, must adapt to local circumstances and civic culture. It is also because CWB is very much a practical rather than theoretical approach – a set of interlocking ideas emerging primarily from the constrained real-world of municipal policy-making, rather than a seminar-room debate too often distracted by the purity and dogma of different economic schools. However, what perhaps most unites CWB, aside from a loosely similar way of seeing the world and a willingness to get to stuck in, is a collective theory of change. And at the risk of sweeping, over-simplistic generalisations, this theory of change largely boils down to the idea that retaining more civic wealth within a locality can boost that particular area's growth and economic resilience by improving local multiplier effects. Economic resilience is also enhanced because a greater retention of wealth is predicated on 'anchor' institutions that enjoy a deep connection to the locality – institutions which CWB advocates believe should be both nurtured and expanded through 'democratisation' i.e. bringing key sources of economic power and wealth creation under democratic or community control. Growth is boosted because the retention of wealth is almost always redistributive – if more wealth stays in a locality, it usually means less wealth 'leaks' away to the globalised economy through larger, often multinational firms. For example, research conducted by the Manchester-based Centre for Local Economic Studies (CLES) – one of the key institutions championing CWB worldwide – for the Federation of Small Businesses argues that for every pound spent by an SME, 63p is spent locally.[24] For larger firms this drops to 40p in every pound.25 Thus, community wealth builders contend, retention creates a stronger local multiplier effect, generating more growth.

However, befitting a truly practical philosophy, it is difficult to disconnect each real-world instance of a CWB approach from its distinctive geographical application. For that reason, throughout this chapter we have included a number of case studies to better illustrate both the practical breadth and common mindset that CWB strategies exhibit.

Equally, it is not true to say that CWB is a direct response to the great financial crash. Many of its features – the anchor institution analysis, for example – are not at all novel or new ideas, and places such as Cleveland in the US, or Manchester here in the UK were consciously experimenting with CWB approaches long before 2008. Nevertheless, it is hard not to see the events of 2008 – not to mention the austerity measures that followed, at least in the UK context – as a clarifying and stimulating moment for its main ideas. Certainly, this is what happened in Preston.

The Preston Story

In 2010 Preston City Council believed they had secured a major new retail development scheme, worth around £700m. With swingeing cuts announced in the new Coalition government's Comprehensive Spending Review – the council's budget has been roughly halved since 2010 – much hope was pinned on the Tithebarn scheme to turn the city's fortunes around. All told, the plan involved the redevelopment of Preston's market, the construction of a new bus station and a huge new retail development.[26] But exactly one year after its announcement, the Tithebarn scheme was scrapped, after the withdrawal of John Lewis as the anchor tenant and the a failure to attract more retail interest led developers to conclude it was no longer financially viable.

This shock was the spark for Preston's policy makers – and in particular Councillor Matthew Brown, then the newly appointed cabinet member for social justice – to begin a radical overhaul of how the council approached economic strategy. Over time, this drive to "challenge the conventional approach to economic development" led Preston's civic leaders to draw three crucial lessons.[27] First, that their local economy could no longer rely upon attracting large external capital investments for grand infrastructure projects – it was neither realistic, nor a resilient or sustainable way to create wealth given the likelihood for shocks at the bottom of the economic cycle. Second, that during a severe recession they could not rely upon traditional tax and spend measures to stabilise the local economy: there was always a possibility that central government would react by slashing council budgets. Third, that even when the national economy returned to growth – or at least conventional growth – it was unlikely to help Preston given how unevenly its rewards where distributed even before the crash.

Cleveland, Ohio, USA

Cleveland, Ohio is a exemplary city of the American 'Rust Belt', a string of rapidly de-industrialising Midwestern cities marked by blue-collar job displacement in the late 20th century. Therefore Cleveland's CWB model – which inspired Preston's approach and remains arguably the most famous example – was born from a similar search for ways to revitalise a moribund local economy.

In 2005, the Cleveland Foundation, assisted by the Democracy Collaborative research institute, identified a number of anchor institutions within the city to partner on a CWB program. The partner institutions were based in a city hub colloquially called the University Circle, containing major institutions such as the Cleveland Clinic, Case Western Reserve University, the University Hospitals, the Veterans Administration Medical Center, and numerous cultural organizations.[28] The program thus became known as the Greater University Circle Initiative (GUCI), and tasked itself with addressing community development issues, particularly in the poorest regions of Cleveland.[29]

The specific focus on income disparity was in part driven by obvious geographic inequality; directly adjacent to the wealthy areas of Circle institutions, less successful residents maintained a median income of $18,500, with over a quarter of city residents living in poverty. The Cleveland Foundation reported that previous initiatives such as the Empowerment Zone program, which provided tax breaks for companies who would base themselves in low-income communities, did not provide the sorely-needed lasting change, as companies relocated following the expiration of their subsidies.

The Foundation took a fresh approach to the problem by focusing on the anchor institutions and creating community-based cooperatives that met identified gaps in the institutions' procurement. The first such cooperative was the Evergreen Laundry Cooperative, which was launched in 2009 to provide a water-efficient laundry service to the anchor institutions. This also served a further aim of the GUCI: to strategically situate new cooperatives in the emerging green economy and give an environmental focus to their cooperative movement.

Cleveland's Economic Development department provided significant funding to the project, via low interest loans and tax credits. The security of government funding, coupled with partnering commitments from the anchor institutions, allowed the cooperative to be economically viable and invest in the appropriate environmentally friendly laundry equipment.[30] Though the laundry co-operative experienced some setbacks in its early years due to over-eager expansions and lack of employee awareness about the nitty-gritty responsibilities of worker-owner status, a mixture of good management and a steady infusion of capital from the anchor institutions and private investors eventually saw Evergreen Laundry become a profitable enterprise.[31] The cooperative has now diversified its revenue base, with only 15 per cent coming from the initial anchor institutions as of 2016, creating a more sustainable business model.[32]

The eventual response was what has come to be known as the 'Preston model' of CWB. Influenced by initiatives in Cleveland, Ohio, the Mondragon cooperatives in the Basque Country and the work of 'think and do' consultancy CLES (who Preston also worked with) in Manchester, Preston's civic leaders began to set out a new economic and social vision for the city. Again, describing it as a 'model' runs the risk of making it seem too dogmatic – as with all CWB approaches it is primarily an evolving practical project. But after a number of interviews with the key protagonists, economists and other place-based policy experts, we believe it can be roughly distilled into five key components:

- Rooted Anchor Institutions
- Localist Procurement
- Localist capital investment
- Worker Cooperatives
- Municipal Ownership

Rooted Anchor Institutions

Perhaps the keystone to Preston's CWB is the centrality the strategy places on rooted anchor institutions as sources of local economic power. An anchor institution is loosely defined as a large, locally rooted institution. Their size is important for their power – as well as key sources of jobs, tax revenue and civic assists, anchor institutions also possess large supply chains with significant local purchasing power. Similarly, their rootedness is vital for economic resilience – largely, though not exclusively, institutions in the public sector, they all have some connection to the locality that reduces their responsiveness to changes in the business cycle. As such, they are absolutely critical for stimulating and sustaining CWB programmes – and Preston is no exception.

In collaboration with the CLES, Preston City Council works with six anchor institutions (other than itself): nearby Conservative-run Lancashire County Council, Preston College, Cardinal Newman College, Lancashire Constabulary, the University of Central Lancashire (UCLAN) and Community Gateway, a large local housing association.[33]

'Localist' Procurement

The second element of Preston's approach aims to encourage anchor institutions to use their purchasing power to influence their pattern of spending so that more wealth stays within Preston and Lancashire. The practical goal is to spend more on local suppliers, thus stopping 'leakage' away from the local economy.[34]

This area draws heavily on similar work carried out in Manchester by CLES.[35] Working with CLES, Preston engaged with policymakers in the respective anchor institutions to promote a change in procurement, collecting data on the geographical destination of where the money was spent. Each institution then signed up to a collective statement of intent to change their procurement behaviour and take a greater account of social value objectives, using social value provisions provided by the Coalition Government's 2012 Public Services (Social Value) Act. The institutions also analysed which areas within their procurement and commissioning cycles could be readily and more sustainably supplied by local supply chains. Again, the practical goal here is to grow the amount of anchor institution spending that can be supplied by Preston and the wider Lancashire economy. CLES's initial analysis found that 61 per cent of the anchor institutions' collective £750 million spend – £458m in total – was 'leaking out' of the wider Lancashire economy, with only 5 per cent traced back to the Preston area itself.[36]

Although this will be covered in depth later in the report, it is perhaps helpful to point out that this aspect of Preston's approach has stimulated by far the most heated public policy debate. For some critics, it represents a 'zero sum' and even 'protectionist' approach towards growth taken down to the municipal level. Others have wondered how it interacts with the fairly stringent procurement rules laid down in EU law that, by and large, favour an open competition for all providers i.e. geographical location is not typically a relevant characteristic when assessing competitive procurement options. These intricacies and more will be explored in depth in Chapters Four and Five, but suffice to say that there is no evidence whatsoever that Preston has flouted either the UK or the EU's procurement law.

Greater Manchester

Alongside Cleveland, Greater Manchester's social value approach to procurement is probably the key inspiration for Preston's community wealth building approach. Of course, historically Manchester has cast something of an economic shadow over Preston and indeed much of the North West – and this has certainly been the case in recent decades. Between 1997 and 2014 Manchester enjoyed the third highest Gross Value Added (GVA) of city regions outside of London.[37] That said, it is also home to some of the most economically deprived areas in England.[38] Therefore, in order to help mitigate the inequalities between the different areas within Greater Manchester, the local authorities have implemented a procurement policy for its partners that aims to retain more of its vast economic output for the benefit of local people.

Like Preston, Manchester's community wealth building approach to procurement began by commissioning CLES to analyse procurement spending – in 2008 in Manchester's case. And in 2014 the Greater Manchester Combined Authority (GMCA) also took advantage of the social value provisions of the 2012 Public Services Act, adopting a procurement policy with 'social value' as its driving aim.[39] Under the policy councils were encouraged to award local providers contracts when carrying out works.

By 2017 84.8% of the total direct spend (£1.003billion) by Greater Manchester local authorities is spent with organisations based in, or with a branch in Greater Manchester. This has provided a significant boost to the local economy.[40] Moreover, Manchester City Council, the local authority home to the more economically deprived areas within the GMCA, has significantly increased its use of local procurement: from 51.5% in 2008/09 to 73.6% in 2015/16.[41] This is estimated to have created 1160 jobs.

'Localist' capital investment

Preston has also begun to examine how it can coordinate patient capital sources towards investment in local projects. As with the 'localist' procurement strategies, this is again driven by a desire to ensure that existing wealth is directed towards further wealth creation within Preston, instead of 'leaking' out.

Most significantly to date this has involved the Lancashire County Pension Fund investing £100m in Preston and £100m across Lancashire.[42] Investments so far include the reopening of the Park Hotel and an £18m student flat development.[43] Given the scale of the Pension Fund – which currently stands around £5.5bn – and the likelihood that much of its equity currently resides overseas, this is one area the Council are particularly keen to expand. Again, Preston's civic leaders are keen to state that these activities are not driven entirely by the desire for a "social dividend" for the local economy, pointing out that investments in overseas equities have often underperformed the returns that might be generated locally.[44]

Preston's leaders are also currently working to promote new regional 'challenger' banks in Lancashire and the North West with the aim of making more capital funding available to local businesses.[45] This work is being developed with the Hampshire Community Bank, a community owned bank modelled on Germany's Sparkassen network of locally-owned public savings bank that focus on lending to local SMEs.[46] There is also early stage interest in launching a regional investment bank.[47]

Worker cooperatives

Preston civic leaders see the anchor institution analysis and the localist procurement and investment strategies as almost the first stage. The second stage – often referred to as 'economic democracy' – is to change the ownership structure of economic institutions across the area. The main thrust of this is to seed a number of new businesses in areas where the anchor institution supply chain is weak – and where possible, to encourage a worker cooperative or employee-owned firm to bid for the work. The main vehicle for this is the Preston Cooperative Development Network (PCDN).[48] This initiative consciously draws inspiration from the Mondragón Corporation in Spain. The network provides services including general advice and consultancy; providing or facilitating premises; enabling access to investment, suppliers and consumers; and encouraging collaboration between cooperatives.

Mondragón, Basque Country, Spain

The first Mondragón cooperative was formed in 1956 as part of an effort to regenerate the Basque country in the aftermath of Spain's vicious Civil War.[49] That single cooperative has since evolved into a £12 billion umbrella corporation to over 100 worker-owned cooperatives.[50] These member cooperatives are distributed across finance (banking, social security, insurance), retail (supermarkets, consumer goods chains) and various other industries.

The cooperatives take a non-competitive approach within their own ecosystem, even providing services to each other in addition to their external clients.[51] Further intra-cooperation is evident in an imposed salary ratio between the lowest and highest paid in each cooperative - 1:9 compared to the 1:129 average found in FTSE 100 firms. Democratic practices are entrenched in the operation of all organisations with a one person, one vote system on all key corporation decisions.

All member cooperatives contribute to a collective 'solidarity fund', used to compensate losses experienced by other members of the group. An established practise of relocation also helps to protect those within the group from job losses if a company does face closure.[52] The group further places a focus on investing in socioeconomic development for its members, through a collective reinvestment of profits into employment creation and education.

In its early days, Mondragón also created a cooperative bank that has since helped fund the creation of newly formed cooperatives in the movement, in addition to aiding existing ones.[53] Despite these efforts to keep every aspect of the corporation local, Mondragón felt it necessary to spread their labour force in the face of global competition: they now own factories or other companies in Vietnam, Chile, Russia and Morocco. Thus, the expansion means that more than half of the current total 80,000 Mondragón workforce are not now members of a cooperative, leading critics to question the on-going fairness and sustainability of the model.[54] The Mondragón Cooperative Corporation therefore serves as a nuanced example of attempting to couple the principles of worker cooperatives with the scale of capital and competitiveness required to flourish in a global free market.

One notable example the PCDN has already nurtured is a worker-owned food cooperative that was created to meet unmet demand from one of the anchor institutions, Community Gateway housing association, in the supply of fresh food to residents.[55] In fact, the Community Gateway Association is itself the largest local cooperative organisation in Preston: residents have the right to become members of the cooperative and represent the single largest group on the association's board. The Gateway also provides workshops for the tenants to be more informed and participate more effectively in board meetings.[56]

However, the Preston model's key protagonists all acknowledge that progress on developing the cooperatives network has been slower than other aspects of the Preston model. In part this is because Preston's cooperative capital – the number of co-operative and employee owned enterprises in the city – was small prior to the development of the CWB strategy. Another reason cited is the on-going funding pressures, both in terms of a lack of new venture capital and public funding due to austerity.[57]

Municipal ownership

Preston civic leaders have also signalled an interest in establishing and running public services as a way of generating public finance revenue and embedding further economic resilience. Although there is not yet a successful example of 'municipalisation' to point towards, plans have ranged from the traditional – energy and power generation schemes – to the unorthodox: at one point the council considered taking the Park Hotel (see above) directly into public ownership. Perhaps the most significant attempt at municipalisation involved a plan to pilot a wind farm on disused council land as the basis of a nascent municipal power generation scheme. However, these plans were suspended in 2015 as the funding mechanism became uncompetitive after the new Conservative Government cut the Feed-in-Tariff subsidies.[58] Nevertheless, the City Council is involved with the Fairer Power Red Rose scheme, delivered in collaboration with councils across Lancashire. This is delivered in partnership with OVO Energy, a private energy supplier that provides the energy, whilst Fairer Power Red Rose sets the tariff and promotes its benefits to Lancashire consumers.[59]

Richmond, Virginia, USA

Richmond, the capital of the state of Virginia, is a former thriving industrial hub that fell on hard times during the decline of manufacturing in the United States. The city's residents have since struggled to break cycles of poverty and unemployment, with just under a quarter of residents earning below the US federal poverty line in 2014. The city's legacy of racism aggravated the issue, as black residents were disproportionately harmed by generations of economic disenfranchisement, leading to an unemployment gap of 15.7 per cent for black residents versus only 4.9 per cent for white residents.[60] A report by Harvard University's Equality of Opportunity project rated Richmond the 48th worst for upward mobility out of 2,478 counties in the United States.[61]

In response to this, the Mayor's office established the Office of Community Wealth Building in 2014, the first office specifically devoted to the model in the United States. The office aims to reduce poverty by 40 per cent by 2030, through specific measures to mitigate structural inequalities in the city's economy. The city benefits from a number of large anchor institutions that could suit the model, including a large research hospital, the massive Virginia Commonwealth University located in the heart of the city's downtown area, and the Port of Richmond. Thus far, the city has partnered with the Richmond Maritime Terminal and an up-and-coming brewery on a long-term job-creation program, and has worked with the hospital to prioritise low-income residents in certain zero-hour contracts.[62]

Long-term strategies for the office, however, reach beyond leveraging the power of anchor institutions, to a more holistic approach to community wealth building. The office has started programs to educate city residents on financial literacy, set up a city-funded initiative to connect residents with local employers and established a program to specifically support impoverished families with wealth creation opportunities. It has also partnered with key local, metropolitan, and state authorities to identify gaps in transportation access and childhood education in order to develop possible solutions and divert more local resources to these areas. Further, Richmond joined 14 other cities in 2017 to lobby the state for a new $7.9 million fund specifically devoted to community wealth building as a poverty reduction scheme, and the city was granted $1.9 million for job creation programs later in the year.[63]

Though the office is still new and has yet to produce a substantive quantitative impact report, early evidence shows positive job growth for residents working with one of the office's programs and the program has outlined an ambitious strategy to expand its focus.[64] However, Richmond represents a strong example of a more 'mixed-method' approach to community wealth building – blending the traditional resilience focused theory of change with more conventional state activism on job creation and poverty reduction.

03.

How strong are its foundations?

In the first two chapters we briefly introduced Preston, community wealth building (CWB) and the unique circumstances and civic heritage that brought the two together. However, as we briefly alluded to in Chapter Two, neither CWB nor the Preston 'model' are without its critics. We turn our attention to these critiques and counter-claims in Chapter Four, but before drawing any conclusions clearly it pays to explore the supporting evidence. This chapter attempts that task – though it is somewhat restricted by both CWB's breadth and, at least in the case of Preston, its relative infancy. For that reason we explore the evidence in two phases. First, we review the research literature on topics relevant to Preston's approach, focusing on anchor institutions, 'localist' procurement and worker co-operatives in particular. Second, we look closely at Preston's relative economic performance since its adoption of CWB.

Phase One: Research Literature

Rooted Anchor Institutions

In Chapter Two we saw how crucial 'rooted' anchor institutions are to Preston's CWB. The research literature offers a variety of definitions for what constitutes an 'anchor institution' but most agree on three key features.[65] First, they are generally large in size - sufficiently big to play a considerable role in their local economy. Second, they are spatially immobile – either they would find it difficult to move or it is extremely unlikely that they would. Third, they are likely to be run on a not-for-profit basis, often by the state itself.

In an extensive review of the literature on anchor institutions, Taylor Jr. and Luter argue that whilst these three features are interrelated and that spatial immobility "is the defining feature of an anchor institution".[66] This is because it "ties the institution to its host community, thereby cementing the relationship between the two…it is this spatial immobility which makes the anchor a prime candidate for using its resources to address community needs".[67] Meanwhile, Webber and Karlstrom suggest that anchor institutions are tied to specific locations by a combination of factors including invested capital, mission and the nature of their relationship to customers and employees.[68]

More practically, the most readily identified anchor institutions in the research literature are universities, and large hospitals or other medical facilities; the so-called 'eds and meds'.[69] The Roosevelt Institute also identify local government, museums, sports teams, performing arts centres, other cultural institutions (theatres, zoos, etc.) and religious institutions as potential anchor institutions.70 Indeed, McCuan questions whether the concept of anchor institutions should be limited to organisations or institutions. Outstanding civic leaders, she believes, should also be considered anchor institutions; these individuals and their networks are critical to the health of their communities.[71]

In the US and UK, universities are the most commonly identified anchor institution. This is particularly relevant for any assessment of the Preston model – whilst it is not the only anchor institution in Preston, our interviews with Preston's civil leaders repeatedly underlined the importance of the University of Central Lancashire (UCLAN) to their long-term vision for community wealth building. In particular, UCLAN is seen as a potential incubator of new industries – for example, drone technology – that the city's leaders would like to nurture under different, non-private ownership models. Therefore, whether or not universities make effective anchor institutions is likely to have a real impact on the long term potential of the Preston model.

Universities are often deemed strong candidates for the 'sticky capital' needed for a successful anchor institution because, as Maurasse argues, compared to other institutions it is difficult for universities to "simply pack up and move".[72] Universities are "rooted in their surroundings and have a longstanding vested interested in their neighbourhoods and cities".[73] They are likely to own extensive assets within the local community and will have sunk significant investment into buildings and the research infrastructure inextricably bound to a particular place.[74] Furthermore, they often invest in landholdings which creates a "relatively unique physicality in their bond to the cities in which they are located".[75]

However, Goddard et al caution that the literature on anchor institutions has "yet to consider the alternative possibility that universities and similar organisations may be vulnerable to radical public expenditure cuts in response to the kind of fiscal crises faced by many national regional/municipal governments in Europe and North America."[76] Writing in the depth of public spending reductions in 2014, they argued that a 30% reduction in the universities department's budget (the former Department of Business, Innovation and Skills) "could leave certain institutions vulnerable, possibly leading to forced mergers and complete closures, or at least very significant staff redundancies and staff closures, all with significant local impacts".[77] With the benefit of hindsight we can see that despite significant reductions in the size of departmental spending, universities have not been as adversely affected as Goddard et al initially expected. Despite this, we do not know for certain that universities would be similarly protected again in future spending cutbacks and this example serves as a helpful reminder that universities may not be as financially resilient as we first expect. Particularly as Sir Michael Barber, Chair of the Office of Students, recently suggested that the Government would not bail out indebted universities.[78]

In a Work Foundation report, Morris et al argue that an anchor institution approach to local economic development could develop an over reliance on certain institutions for economic stability and growth.[79] This weakens the resilience objective of community wealth building because during an economic downturn a reduction in this organisation's size would have a disproportionate effect on direct and indirect employment in that local economy. The authors cite the recent closure of the Corus steelworks site in Teesside as an example of the severe economic impact that can be felt by a local economy over reliant on one institution.

However, in some senses this feels like a misplaced critique of community wealth building, at least in terms of that envisaged in Preston. After all, it is precisely the vulnerability to such shocks – the collapse of the Tithebarn project being a prime example – that leads community wealth builders to critique an overreliance on private sector inward investment. What Morris et al serve to reinforce however, is the care and importance with which would-be community wealth builders should select their anchor institutions – the institutions must be genuinely less exposed to financial volatility through their rooting in local economies. It is hard to see how most community wealth builders would be satisfied that a steelworks owned by a foreign investor - Tata Steel of India in this instance - would not make a suitable anchor institution. On the other hand, it does illustrate the difficulty of developing a diverse portfolio of anchor organisations – particularly when looking to move beyond the public sector.

'Localist' procurement strategies

Does it stick?

A 'localist' procurement strategy is a key pillar of the 'Preston Model' strategy. It is informed by the belief that spending on local organisations by anchor institutions will 'stick' in the local economy of those organisations; less will 'leak out' to other economies. In truth, there is not a great deal of evidence on this topic – nor on the related question, relevant to charges of local protections, about where any extra demand is generated from i.e. is it merely zero sum economics or is demand raised through better multipliers outside of, as well as in, the specific locality. A CLES report for the Federation of Small Businesses argued that local authorities who responded to their consultation:

> *"collectively spent over £8.7bn on procuring goods and services with local firms, generating nearly £4.5 billion of additional benefit for local economies…when the effects of local spend are broken down and analysed, every £1 spent by a participating local authority with local SMEs generated an additional 63p of benefit for their local economy compared to just 40p generated by large local firms".*[80]

This assessment used the Local Multiplier 3 methodology developed by the New Economics Foundation. However, it has to be pointed out that both the New Economic Foundation and CLES are passionate champions of CWB, often with an active practical involvement. That is not to dispute their conclusion – that the quality, nature and type of procurement would have differing impacts on local economic demand seems a perfectly reasonable assumption to us. But it is still hard to counter the What Works Centre for Local Economic Growth assessment, which concluded that robust evaluations of whether local procurement practices generate local economic growth do not currently exist.[81]

Higher prices?

Another common criticism of 'localist' procurement strategies is that it will lead to costlier outcomes. According to this critique, this is caused by two economic mechanisms. First, that because standard procurement processes more typically award the contract to the lowest bidder, any preferential treatment for local companies will inevitably raise costs otherwise there would be no need for preferential treatment. Second, that there is a risk that 'localist' procurement strategies could reduce the number of potential bidders for contracts, in turn reducing competition and raising prices. This could come from firms that are not deemed 'local' enough exiting the market.

We will deal with these objections more in depth in Chapter Four. However, it is worth highlighting that theoretically any change in economic outcomes are highly contingent upon existing market structures. For example, if the market for public contracts is dominated by large firms able to make artificially low bids, a policy favouring local, smaller firms could 'level the playing field' and in turn be seen as a competition-promoting measure. Indeed, this is precisely the counter-argument made by community wealth builders who prefer to see their policy as encouraging competition through nurturing healthier local supply chains less dominated by big firms.

Whilst there is little examination of the impact of specifically 'localist' strategies in existing literature, there is some empirical evidence for other types of preferential procurement exercises which may serve as a partially useful comparison. For example, in the U.S. the Small Business Act of 1953 set aside a certain number of federal contracts for small businesses. A study of the impact of this policy on bids for federal contracts found that in all but one instance there was no difference between the bids submitted on a 'set aside' (i.e. protected) basis and those bids submitted on unrestricted commissioning rounds.[82] The explanation offered for this is that in those commissioning rounds run on a 'set aside' basis there were a significantly higher number of firms bidding; on average 3.6 firms bid on set asides against 3.1 biding in the unrestricted competitions. [83] Thus, this study provides some empirical evidence for the idea that a preferential procurement approach could, at least theoretically, result in lower prices through encouraging more market entrants and stronger competition.

However, an examination of a procurement process ran by a Californian road building agency favouring SME bidders found different effects - procurement costs were 3.5% higher in auctions using preferences.[84] This was a result of reduced participation by lower cost larger firms in those auctions. However, it is important to note that the authors do not think this is conclusive and they consider the possibility that if a bid preference programme led to higher survival rates for small firms, the number of firms in the market could increase leading to a greater level of competition.

These contrasting outcomes show that the impact on prices of any preferential procurement scheme will depend on the specific design of that scheme and market conditions. We therefore cannot determine conclusively whether a 'localist' procurement scheme will raise prices. However, this is still an important finding given that many economists believe a scheme of preferential procurement will necessarily raise prices because of the deviation from awarding bids solely on the basis of price. The potential for preferential procurement – particularly if accompanied by supply chain activism, as many community wealth builders recommend – seems to be largely absent from the economic and public policy debate.

Worker cooperatives

Resilience and stability

Whilst not as central to the 'Preston Model' as anchor institutions or 'localist' procurement at the moment, worker cooperatives are an area which Preston's City Council has strongly signalled it is keen to develop in the future.

One purported benefit of co-operative ownership models is that they are more stable and financially resilient than typical corporate structures.[85] This is one of the main reasons Preston City Council is interested in their development - they could provide more protection from the volatility of the economic cycle. This claim is underpinned by the theory that cooperatives respond differently to normal firms in times of a downturn - dropping wages first instead of reducing the size of their workforce. Then, in theory, because of their better staff retention, they are well placed to respond when business picks up, making up for lost pay through the fact that employees can share in the organisations profits.[86] However, does this theory work in practice? A range of international studies suggests there is good reason to believe it does.

In a comparison of the economic behaviour of traditional capitalist firms in Uruguay and cooperative institutions, Burdin and Dean find that total levels of employment were more stable and remained higher on average in cooperatives than in traditional firms - and that this was a result of their greater wage flexibility.[87] For example, in a particularly acute macroeconomic crisis between 1999 and 2002, Uruguayan cooperatives outperformed capitalist competitors by protecting employment levels through the acceptance of wage cuts. This finding is supported by a study comparing employee owned and regular plywood mills in the Pacific Northwest. When employee owned firms faced a difficult economic climate, they adjusted pay to maintain employment and output levels.[88] Conventional mills responded by adjusting employment and work hours, keeping wages constant.

Similarly, a comparison of the fortunes of Spanish and French companies found worker and social cooperatives are significantly more resilient than conventional enterprises during the recent financial crisis.[89] Whilst cooperatives were not entirely immune from its impact, in the depth of the recession in 2009 the number of regular French enterprises fell by 1.03% whilst the number of cooperatives fell by just 0.06%.[90] This suggests that they were significantly more resilient. Indeed, the recovery was quicker in French cooperatives too - by 2010 the number of cooperatives had increased by 1.05% whereas there was return to growth in the number of regular enterprises.

Furthermore, in an extensive analysis involving 8,000 companies, Kruse and Kurtulus found that companies with employee-owned stocks had only half as many job losses as companies without employee-owned stocks during both of the last two recessions, in 2001 to 2003 and 2009 to 2011.[91] However, the driver for this was not found to be greater wage flexibility but instead the higher productivity among these types of companies which meant they were more likely to be successful and less likely to cut jobs.[92]

That there is such consistency in these international examples suggests that the promotion of cooperatives in Preston as a means of delivering greater financial resilience is grounded in strong empirical evidence.

Innovation

Lazonick argues that the shift towards 'maximising shareholder value' has come at the cost of the innovative firm.[93] This is because stock-based pay for executives encourages short-termist behaviour, instead of the long term investment in the productive capabilities of their firm required for innovation. As a result, there is a suggestion that cooperatives – which hold a different incentive structure than traditional corporate forms – could hold the key to greater innovation. Why is this relevant for Preston? First, since Schumpeter we have known that innovation is a key driver of economic growth: in his memorable phrase the capitalist economy is propelled by "gales of creative destruction".[94] Second, Preston is specifically interested in harnessing cooperatives for the development of innovative produces. For example, it has explored the possibility of a cooperative community drone service in the city - drawing on the extensive aerospace industry in wider Lancashire and the specific drone expertise at the University of Central Lancashire's Engineering Innovation Centre.[95]

What is the theory behind why cooperatives might be more productive? One important reason is that they may communicate innovative methods of production from the workplace to management more efficiently than traditional firm structures. A study of Italian industrial cooperatives found that observations made by workers were more likely to be mentioned, recorded and, as a result, acted upon in a cooperative.[96] This might be when they are building a craft product, carrying out more service-focused work or assembling a product on an assembly line. This increases the likelihood of that firm uncovering ways to optimise its production and organisation, giving real potential for innovation. Smith concludes that this more direct line of communication from the workers to management is "clearly a comparative advantage of cooperatives over conventional firms".[97]

Similarly, a survey of UK-based firms found that large employee-owned businesses are more likely than large non-employee owned businesses to seek innovative ideas from staff.[98] This is driven by larger employee-owned firms being wary of losing the advantages that accrue from employee involvement in decision making and therefore striving to put structures in place to seek innovative ideas from staff.[99] The literature also notes that cooperatives can provide leading examples of innovation in organisational structure and design. In response to blue collar worker dissatisfaction in certain Mondragon plants in the 1970s, managers implemented team-based work in the Copreci cooperative.[100] This involved changing their workplace layouts from long assembly lines to work tables, inspired by the Norwegian work democracy movement. Workers were required to take on additional duties and learn new skills, with the changes met by little resistance.

On the other hand, the research evidence also widely acknowledges that larger firms can often leverage economies of scale more effectively for greater innovation - something which may put cooperatives at an advantage given their typically smaller size. However, as Smith and Rothbaum outline, the formation of cooperative leagues can serve as a counterbalance to this. These leagues are often associations or networks of many small cooperatives which often provide services that otherwise would have high fixed costs, helping the individual cooperatives to remain at the cutting edge of innovation.[101] For example, worker cooperatives could share marketing activities and agricultural cooperatives may share infrastructure – as indeed the Mondragon network (see Chapter Two) does on an epic scale.

Phase 2: Preston's recent economic performance

A direct casual link between Preston's recent economic development and its adoptions of CWB is obviously impossible to ascertain. Nevertheless, given CWB is first and foremost a practical philosophy, not to mention that robust evaluation and theoretical evidence is pretty sparse, it seems fair to base some assessment of the Preston model's approach upon the city's recent social and economic performance.

Anchor institution spending

A key aim of the Preston model is to direct anchor institution spending towards local firms. This is driven by the belief that greater levels of spending on local firms causes more money to 'stick' in the local economy.

There is initial evidence that Preston to date has been successful in redirecting the spend of its anchor institutions towards local firms and suppliers. In 2012/3, just 5% of spending on goods and services by six Anchor Institutions was spent in Preston and 39% spent in Lancashire more widely.[102] However, by 2016/17, 18% of spending on goods and services by those institutions was spent in Preston and 79% in wider Lancashire.

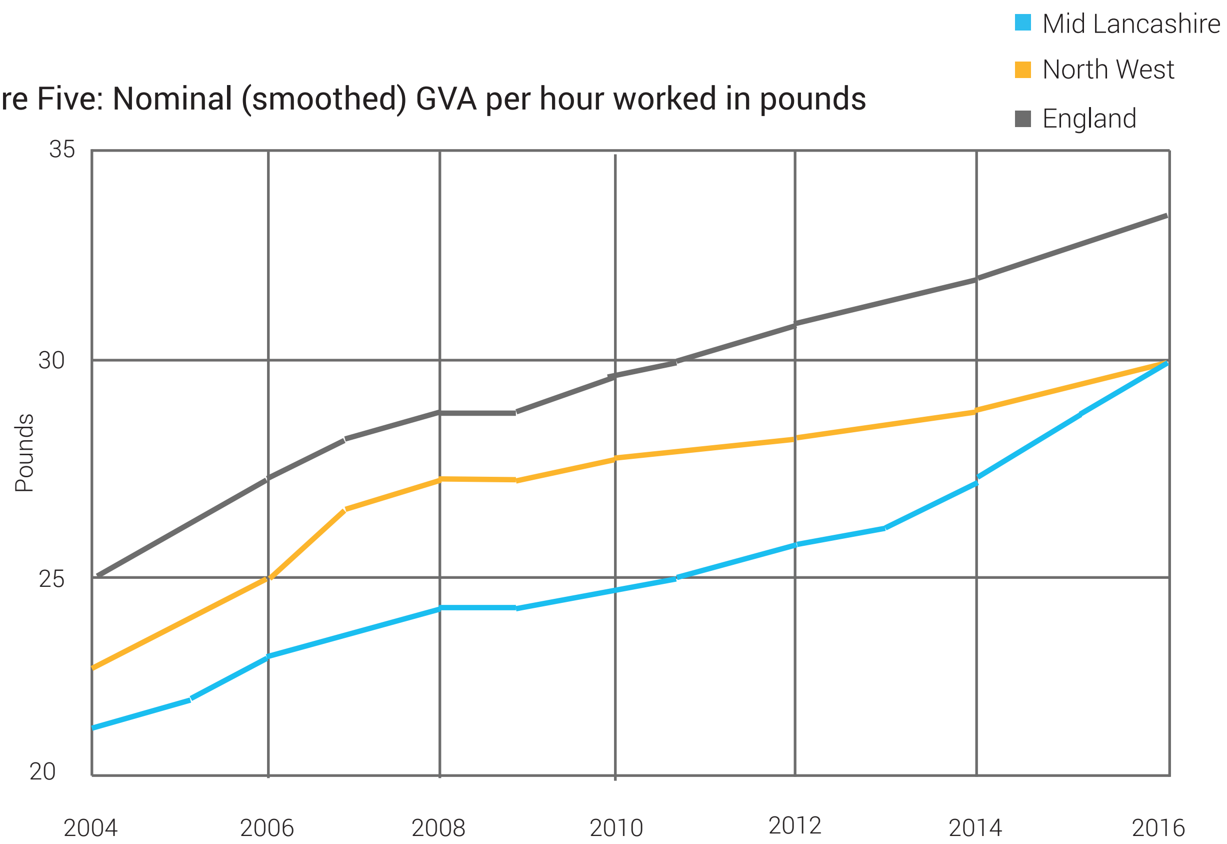
Productivity

The rate of change in productivity is of vital interest for any local economy. This is because boosting productivity is critical to increasing economic growth in the long term; "productivity isn't everything, but in the long run it is almost everything".[103] Productivity gains also feed into higher wages for workers.

Gross Value Added is a measure of the economic contribution of an individual producer, industry or sector; the value of goods and services produced minus the costs of all inputs required for their production. GVA per hour worked divides GVA by the total hours worked by the workforce in a particular region and is recommended by the ONS as an accurate measure of regional productivity.

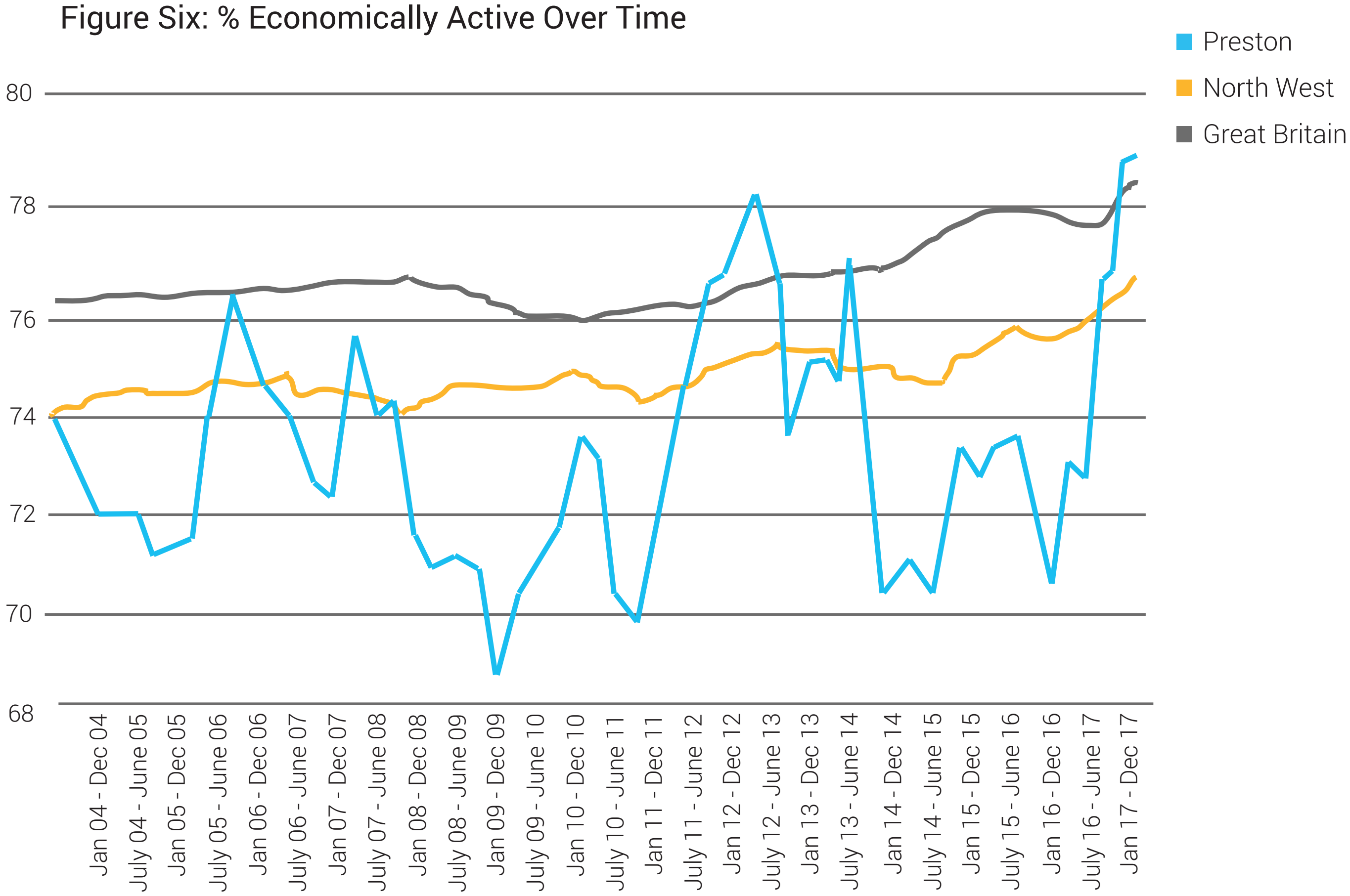
Figure Five shows that Preston - which forms a major part of the Mid Lancashire measure of regional productivity - has consistently lagged behind the North West and even further behind England on this measure. However, in 2014 we begin to see the gap close between Preston and the North West and by 2016 this gap has been eliminated entirely. Whilst this is still behind England as a whole, this is a real achievement – and should certainly arouse the curiosity of place-based policymakers interested in the potential impact of the council's CWB strategy.

Figure Five: Nominal (smoothed) GVA per hour worked in pounds



Source: ONS, Subregional productivity: labour productivity indices by UK NUTS2 and NUTS3 subregions [104]

Figure Six: % Economically Active Over Time



Source: Nomis, Annual Population Survey[105]

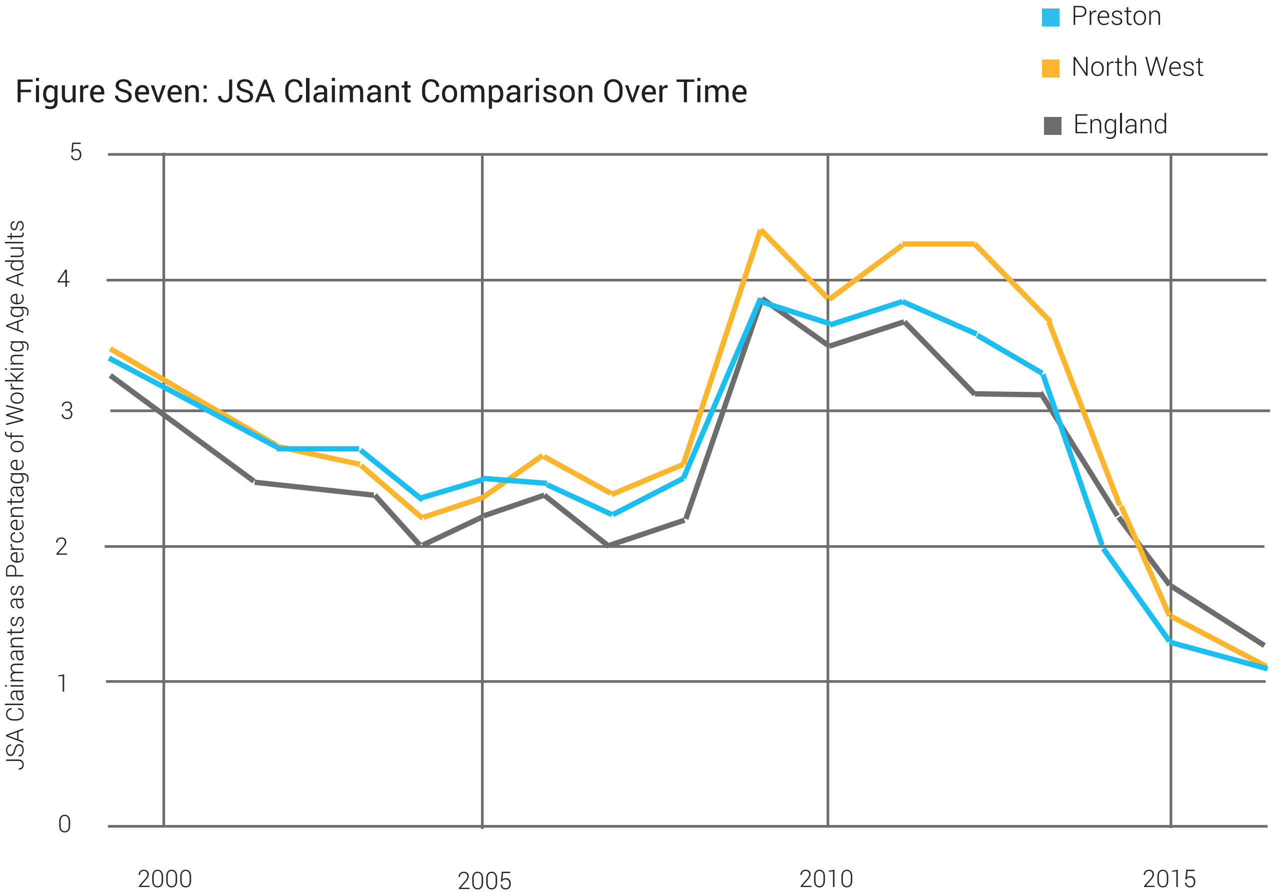
Employment

A key aim of the Preston Model is to increase the number of local jobs created in the local economy. The proportion of the population that are economically active is one way of approximating this. Though an imperfect measure, if the Preston model were to be having a positive impact on the number of local jobs, we might expect the proportion of economically active people to rise.

Figure Six shows that the volatility of employment rates in Preston are significantly greater than for both the North West and the country as a whole. Preston saw a much greater fall in the proportion of economically active people than the rest of the country during the 2008-2009 financial crisis and in mid-2013 we saw a collapse in the employment rate which ran against the trend seen in the rest of the country.

However, since October 2015-September 2016 we have seen a drastic recovery in the proportion of economically active people in Preston, with a rise from 70.8% to 79%. Today the proportion of the population economically active is higher than in both the North West and the rest of the country for the first time since July 2013-June 2014. Notwithstanding this impressive progress, it is important to note that previous spikes in the level of economic activity in the past in Preston have been followed by sharp crashes. A key test of the economic resilience of the Preston model is whether these recent gains are maintained.

Figure Seven: JSA Claimant Comparison Over Time



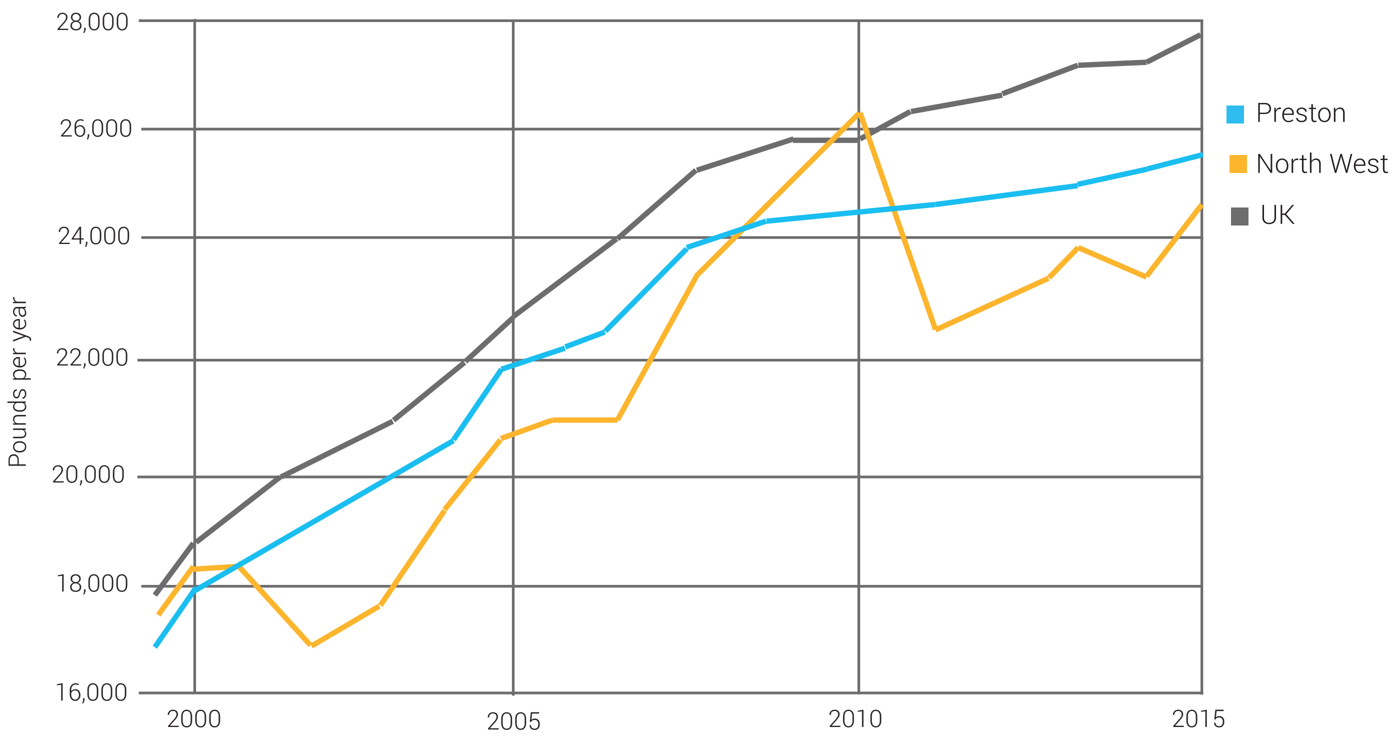
Source: Nomis, Main Benefit Claimants – Time Series[106]

We see a similarly positive picture when considering the rate of unemployment as measured by the claimant level of Job Seeker's Allowance. From 2006 to 2013 Preston's unemployment rate was somewhere between the average for England and the North West - scoring worse than the country as a whole but better than the regional average. However, since 2014 its unemployment rate - as measured through JSA claimants - has been lower than England's. This is a sign of real success - particularly when Preston tends to fare worse than the country as a whole on most economic indicators.

Income

The impact of the Preston Model on income is another key consideration for evaluating its success. If the strategy were working well we would expect to see incomes rising as more money is kept in the local economy.

Figure Eight: Annual Median Income



Source: ONS, Annual Survey of Hours and Earnings (ASHE) regional timeseries 1997 to 2017[107]

Figure Eight provides ample evidence that Preston was not benefitting from the steady economic expansion up to the 2008-2009 financial crisis as much as the rest of the country, with the rate of increase in average incomes significantly below the UK-wide rate. We also see Preston facing a particularly acute decline in median incomes between 2010 and 2011 with incomes falling from £26,100 to £22,500. This is likely to be as a result of reductions in government spending which particularly affected Preston given its reliance on public sector jobs. However, since the low of 2011 there are signs of recovery, though this rate has been slower than in the rest of the country. Monitoring the impact of a community wealth building strategy on incomes should be a key focus for Preston as their continued development of this approach progresses.

Deprivation

Another key aim of the Preston model is to reduce the level of deprivation within the city. The Index of Multiple Deprivation (IMD) is the most widely used measure of deprivation and is based on seven factors: income (weighted 22.5 per cent), employment (22.5 per cent), education (13.5 per cent), health (13.5 per cent), crime (9.3 per cent), barriers to housing and services (9.3 per cent), and living environment (9.3 per cent).

The index measures deprivation across Lower-layer Super Output Areas (LSOAs), which are sub-local authority geographic areas with an average of 1,500 households each, in order to depict a more accurate picture of within-district inequality. The IMD then aggregates the data from separate LSOAs within each local authority to assign an overall rank to the LA out of 326 total local authorities, 1 being the most deprived.

Though Preston still ranks highly for deprivation in 2015 (46th most deprived), this is a strong improvement on the previous IMD report in 2010, where Preston was ranked 34th most deprived, and in 2007 when it was ranked the 39th most deprived.[108]

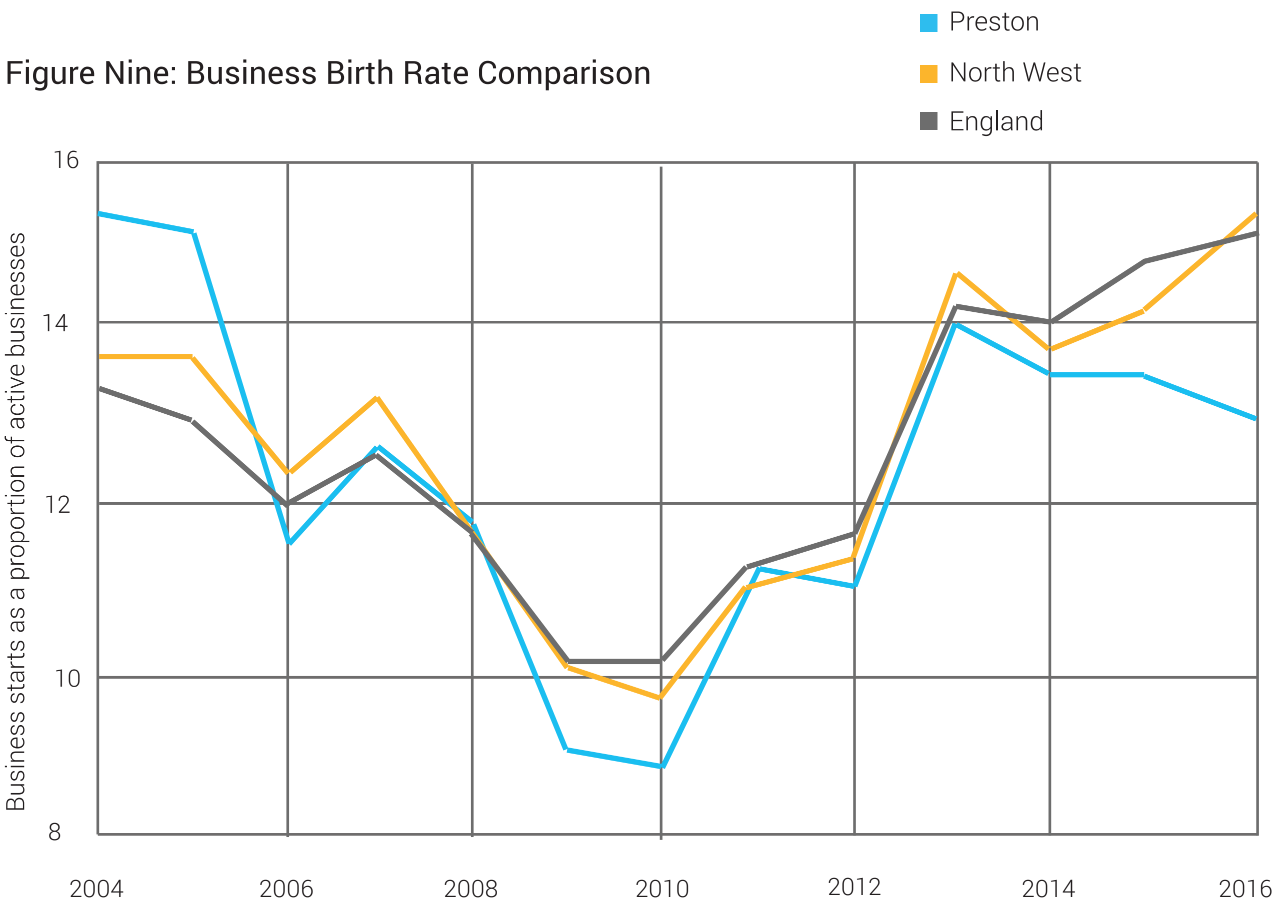
The local concentration of deprivation is a measure that aims to show inequality within local authorities, by giving more weight to extremely deprived areas that contain a significant proportion of the larger local authority's population. This is important when trying to measure deprivation in Preston, which encompasses both highly-populated and more deprived urban areas, and sparsely-populated, less deprived rural areas. This measure ranks Preston as the 60th most deprived in 2015, a strong improvement from 23rd in 2010, 20th in 2007, and 32nd in 2004. This ranking may indicate a strong equalizing effect for the most deprived areas of Preston in the city centre areas.

Business start ups

Another important consideration when assessing the Preston Model is its impact upon the rate of business start ups. Whilst increasing business start ups might not be a key aim of Preston's community wealth building strategy, in a healthy and flourishing local economy we might expect to see a higher rate of business start ups.

In Preston the rate of business start ups was already in decline long before the financial crisis. This only ended in 2010 when we saw a resurgence in line with a recovery in the rest of the North West and England. However, since 2013 the rate of business start ups in Preston has decoupled from the trends for the North West and England, with the proportion of active businesses started that year declining slightly whilst continuing to rise elsewhere.

Figure Nine: Business Birth Rate Comparison



Source: ONS, Business Demography, UK[109]

Conclusion

In our analysis of the research literature, we found there is a long history of anchor institutions being utilised for economic development and that universities are generally considered strong candidates. We also found that there appears to be good evidence worker cooperatives can help strengthen the financial resilience of a local economy and that cooperatives can be real sources of innovation, though this may be dependent on them being part of a cooperative league. Unfortunately, we were unable to find sufficient evidence to conclusively answer whether a 'localist' procurement strategy will always benefit the local economy by ensuring more money 'sticks' in that local economy. That said, we were able to find good evidence from around the world that – contra to the opinion of some commentators – a 'localist' procurement strategy may not necessarily raise prices.

However, weighed alongside any debates about theoretical evidence is Preston's impressively strong recent performance on a number of social and economic indicators – productivity, employment, incomes, deprivation. This is not a huge surprise to us at Demos: in a separate analysis – our long-running inclusive growth index, Good Growth for Cities – we found Preston to be the most improved city in the UK this year.[110] So whilst this must of course come with the usual caveats about causation, it is hard to ignore the strength of the performance – and across so rich and varied indicators – without reflecting favourably on the city's recent economic policies. It would therefore seem churlish to deny that CWB is not playing a significant role in this given the correlation between its implementation and Preston's improvement.

04.

A new direction for local democracy?

In Chapter Three we set out some of the supporting evidence for community wealth building (CWB) and other relevant research literature, as well as underlining Preston's recent improvement across of range of economic and social metrics. This chapter attempts, briefly, to make sense of this evidence and thus arrive at some preliminary conclusions about the 'Preston model'. In doing so, we examine the major critiques advanced against both Preston and CWB more broadly, in particular the charge that it offers a 'zero sum' or 'protectionist' approach to growth and local wealth creation.

However, before assessing Preston's CWB strategy at this technocratic level, we also feel it necessary to point out that the Preston model is a democratically mandated political project. This may seem obvious but at times if feels it is easily lost in the ensuing debate. Indeed, that people might be surprised that a democratically elected Labour council might have an ideological bias towards municipal public ownership models, or be more sceptical of free market competition, seems to us both strange and quietly emblematic about what we have come to expect from local democracy. Of course what Preston's civic leaders are attempting is an ideological project. Why would we expect it to be anything else?

For us, this speaks to a simpering technocracy within the place-based policy debate; a barely concealed assumption that there are provable, rational models and the art of civic leadership is merely to apply them effectively. This claim in itself is impossible to advance without making ideologically contestable assumptions. But perhaps more worryingly it highlights how narrow a scope we have come to expect from civic leadership. This is probably not the right place for a lengthy rendition of how Britain – and England in particular – went from being one of the more decentralised polities in the developed world to being arguably the most centralised in little more than half a century (suffice to say, it is a story where both Britain's major political parties have more than a walk-on part). Nor do we need to advance all of the growing research evidence that a more decentralised approach to political governance correlates favourably across the world with progressive outcomes, from better education, to stronger growth and less regional inequality.[111] No, what we want to offer first is a less utilitarian appeal towards the need for Westminster to truly vacate the local political stage and allow a thousand political flowers to bloom. Because a pervasive attitude that Westminster is the correct theatre for 'big' ideological politics, whereas towns should largely implement its conclusions, is almost certainly a contributing factor in how we came to be the most centralised and regionally unequal country in the developed world.

In short, placing a cap on the ambition of civic leaders infantilises local democracy. But worse still, over time it hollows out our faith in national institutions as well. Demos believes that a lack of agency and accountability in local politics is absolutely central to the story of diminishing trust in representative democracy and its institutions. More than that, we believe in the 'new municipalism' espoused by projects such as the Fearless Cities movement that seek a genuine devolution of economic power in order to rebuild a healthy and flourishing demos from the bottom-up. Therefore, not only is the primacy of local democracy far more important to us than any of our technocratic comments on Preston's approach, we also believe that creative civic leadership should be encouraged almost as an end in itself.

Preston's community wealth building approach certainly fits that bill – whilst some may quibble about the council's politics, surely few can fail to be impressed by the depth of its ambition. It is a reimagination, born through adversity, of what is possible in terms of local economic stewardship – and that spirit can serve as an example to civic leaders everywhere.

Besides which, the best guarantor against wayward civic leadership remains – a few extreme examples, aside – democracy itself. The threshold for central state intervention should always be incredibly high and neither Preston nor CWB more broadly come anywhere close to that in our estimation. In fact, we believe they should enjoy more powers to deepen the experiment (as should other approaches towards local democracy of completely different ideological motivations). Ultimately, it is for the people of a given locality both to decide their political direction and to constrain it at the ballot box where necessary – and that principle should be remembered as a counter-balance to our technocratic assessment of the 'Preston model' below.

Worker Co-operatives

As detailed in Chapter Three, there are decent theoretical grounds for supposing that worker co-operatives can boost local economic resilience. Not only that, we also found grounds for believing that co-operatives can also diversify the productive capacity of a local economy by encouraging more worker-led innovation. These are not exactly profound economic revelations – during the financial crisis the performance of the cooperative sector consistently outperformed the wider business base in the aggregate[112] and employee-owned firms are often (though not always) found to be more productive in the wider literature.[113] For these reasons, both Preston's civic leaders and CWB more broadly would appear to be well-advised in their desire to encourage more co-operative ownership models.

We wholeheartedly support the growth of worker co-operatives on these economic grounds too. However, it is also worth pointing out the political objectives – which we share – behind CWB's embrace of co-operatives. Because any agenda that is serious about the democratisation of power must also look carefully at workplace democracy and firms. Ultimately, this is a matter of first principles, yet the critique of overly-authoritarian, disempowering behaviour by firms towards their workers – what the philosopher Elizabeth Anderson has called "private governments" – need not always be made from a left-wing perspective.[114] Indeed, employment by such firms was precisely the "servile dependency" from which Adam Smith hoped fair markets would deliver free citizens.[115] Co-operatives and other employee-owned models provide workers with an element of control and democracy over their working lives that traditional corporate structures often neglect. Therefore, encouraging more worker co-operatives is a practical and economically viable way to deliver on our mission to support individuals to live free, autonomous and powerful lives.

Municipal Ownership

The case – for and against – municipal ownership rests largely on political grounds too. There is of course a significant body of research on the merits of public or private ownership. But this too seems largely unhelpful as a basis for assessing municipal ownership as an attractive civic policy for Preston and CWB more broadly. For one, a sizeable chunk of the research literature on ownership models tends to argue from a committed and nakedly ideological perspective, either way. However, most research concerns itself with nationalisation or privatisation on a scale that seems entirely irrelevant to the sort of municipal ownership schemes promoted by CWB. Not just in terms of size either: many CWB schemes are genuinely innovative, either using community ownership structures – such as community land trusts – or exploiting the uniqueness of renewable energy and its lack of existing 'ownership' to create new schemes entirely, rather than municipalising existing resources.

One argument that should be largely discounted in debates about taking a firm back into public ownership however – municipalisation or nationalisation – is the idea that the size of the up-front cost is an automatic disqualifier. This is because the state is acquiring an asset that in theory could be re-sold (i.e. privatised) and, as with any non-public takeover, this asset would be accounted for in any assessment of the transaction. Equally, that asset should, all things being equal, return revenue back to the taxpayer in the same way that it would generate profit as a private enterprise. Therefore, the up-front cost is a concern primarily if the cost of that borrowing (i.e. servicing the debt interest) negates the profit or, more basically, if it is simply a poor purchase because the asset's value will diminish over time. Borrowing lots of money to acquire private enterprises may still be a very foolish thing to do, but not necessarily if the state can increase its revenues substantially or sell the asset on for a profit.

For us, this shows that ultimately you must assess each potential change of ownership on a case by case basis. In our eyes, enterprises are far more likely to fail or succeed based on non-ownership factors – investment, management, sensible regulation etc. Like Preston's citizens (see focus group discussion below) we are perhaps more comfortable with public ownership in its traditional utility sectors and positively welcome much of the innovation – in renewables especially – that CWB has achieved around the world by means of municipal ownership. Equally, steady revenues from locally owned energy companies are almost certainly good for their respective civic public finances and historically speaking it is hard not to notice the concurrence of England's golden age of municipal government at the end of the 19th century with city-led efforts to build Britain's nascent energy and water infrastructure. Certainly, councils should feel emboldened to experiment with such an expanded tool-kit and local democracy will probably serve as the most effective protection from any outlandish or financially–unviable schemes. However, equally we would not be comfortable making a clear recommendation that municipal ownership will necessarily lead to greater economic resilience. In many cases it might, but not always – and whilst it may seem disappointingly technocratic, we believe a case-by-case approach will serve civic leaders best.

What do Preston's citizens think about community wealth building?

Demos ran a focus group with ten Preston citizens to explore their attitudes towards the council's community wealth building approach.

The first thing to say is that nobody in the focus group was directly aware of the council's approach. However, there was widespread sympathy towards the need for something new, with many participants pointing out that the city was struggling economically:

> *"But whilst everything's getting tighter, less disposable income, people aren't buying what they used do"*

> *"I look at people who are maybe just a little bit lower [paid] and they're really struggling"*

Equally, participants instinctively seemed to believe that the economy does not distribute wealth or power fairly to cities like Preston:

> *"The people that decide how the economy works are the people with the money and the power I'd say."*

> *"It's like the share of wealth is in the wrong place"*

When explained, there was a variety of opinion about community wealth building. Many participants were enthused about increasing the amount of procurement spend being invested directly in the city's economy. However, there was also a concern that this may result in a decline in quality.

> *"I think spending locally is really important because any money you put back into where you live makes it better theoretically. But it's a double-edged sword because you won't necessarily get the best deal for the people who live there. Local doesn't mean the best"*

However, overall, the idea that local products are usually associated with higher quality was a regular theme, with some participants being prepared to pay more council tax to support more local businesses (albeit a small amount!):

> *"It would be lovely for us to put the money back into Preston. I don't mind paying more knowing I'm going to be getting better produce"*

> *"If I knew there was support available and I knew where the money was going and how it's helping I would 100% have no problems with putting in an extra fiver a month on my council tax"*

While the participants were generally encouraged by the potential upsides of the model, they also expressed reservations about its implementation. Perhaps the most regularly articulated concern was that the award of contracts to local firms could be politicised and potentially lead to corruption:

> *"It's been proven, shown time and time again, when firms have been awarded contracts it's because they are donors to that particular party that's in power at the time."*

> *"I suppose you've just got to make sure that if there's a trend where some particular building company keeps getting the contract then maybe something needs to be done"*

Meanwhile, other participants cited a lack of healthy competition as a concern:

> *"I mean we might also get stagnation of the market in the sense that the companies that are outside that area just flat don't bid for stuff anymore because they're like, well we're just not going to get it so there's no point [...]Unscrupulous businessmen in Preston could [then] charge more because there is nobody else to do it"*

On public ownership there was general support for more sectors that had a history of public ownership in the past – for example, utilities – but not so much on unconventional sectors (e.g. hotel ownership):

> *"I think with the hotels, absolutely not [public ownership]. But renewable energy, I think the government is already doing something with that. Which I think is great. So I do support that."*

> *"That's a really good thing [renewable energy generally] but obviously with utilities, that would be great if the government owned it. But they wouldn't necessarily have to operate it, it could still be operated by EDF, owned by them [the government]."*

Localist 'capital' investment

The deployment of civic pensions wealth into local capital projects is arguably the aspect of CWB that holds the most transformative potential. Nor is political interest in 'repatriating' investments belonging to the Local Government Pensions Scheme (LGPS) and their subsidiaries confined to left-wing perspectives – as Chancellor, George Osborne frequently called for the LGPS to be amalgamated into a larger national wealth fund for the specific purpose of financing domestic infrastructure projects. Talks on pooling some of the 89 locally administered pensions scheme that make up the overall LGPS are ongoing and with assets of over £200bn clearly there is a lot at stake.[116]

However, in truth it is this aspect of the Preston approach that most makes us nervous. Whilst it is certainly true that the LGPS has performed poorly in recent years and that often local infrastructure projects will return more to policyholders than other investments, these are the win-win cases. The more difficult question is whether the fiduciary duty to deliver maximum value to policyholders should be weakened in pursuit of other policy goals, such as supporting socially useful infrastructure investment. Again, it is important to point out that the recent deployment of Lancashire County Pension funds has been achieved under the current statutory framework. We are not opposed to broader reform of the LGPS schemes to encourage more socially productive investments either. However, pension wealth should certainly not be viewed exclusively as a 'go to' source for capital finance – they have an important and obvious role to play in our social protection and welfare systems too. So whilst we acknowledge there is a dire need for patient capital and investment finance in order to boost growth and economic resilience in Britain's poorer communities – and therefore, as a 'needs must' approach, we can understand the attraction for Preston's civic leaders - we do not believe an ideal solution should require watering down the statutory priority that local LGPS schemes give to maximising value for policyholders. If significantly loosened, the political temptation for councils to make risky investments in pursuit of ill-advised infrastructure projects may just prove too much.

Rooted Anchor Institutions and Localist Procurement

In truth, the importance that Preston's civic leaders place upon rooted anchor institutions is not a particularly controversial aspect of CWB. That public sector institutions - or any other locally rooted institution that, for whatever reason, are protected from the usual business cycle – exert an outsize impact upon a local economy in times of recession and crisis is something of an economic truism. What is an issue of contention however, is how Preston and CWB attempt to use those institutions – and specifically their procurement activities – to reshape their respective local economies. Indeed, this is easily the most contested area of CWB in the wider place-based policy debate, with some critics suggesting Preston's approach to procurement is 'protectionist' and even comparing it unfavourably to Donald Trump's economic nationalism.[117]

Alas, this is where the research literature – as outlined in Chapter Three – is most absent. On the crucial question of does the wealth stick – an absolutely fundamental component in CWB's theory of change – there is little in the way of guidance. Not only that but there is also not a great deal of available information as to where in Britain – or indeed the world – the wealth is retained from i.e. if Preston increases the spend of money retained in the city and Lancashire more broadly, who is losing out? This is crucial because it forms part of CWB's defence that the approach is not simply a zero sum ordering of wealth patterns – to generate growth there needs to be a significant multiplier effect to the greater wealth retention. Again, in theory this seems a defensible economic position theoretically, but practical evidence is scant.

This lack of practical evidence is perhaps one reason why the debate about Preston's procurement practices has taken such a bafflingly abstract turn. Indeed, it seems faintly incredible that a debate about procurement practices in a Lancashire mill town should become a bête noire for those seeking to defend trade liberalisation against protectionism; and yet somehow that appears to have happened in the reaction to Preston's CWB. Frankly, it is all a bit silly and we do not believe that Preston's procurement practices currently constitute a threat to free trade liberalism. For one, Preston's procurement policy is compliant with both the UK and the EU's respectively stringent competition law. For another, clearly scale matters – to compare Preston to the US economy is to totally ignore economic power relations and how these shape market rules and behaviour. More substantively still, we sympathise with the argument made by some CWB advocates that such supply chain activism, in directly seeking to grow the diversity of a locality's business base, can be pro-competition. After all, there is no such thing as entirely neutral regulation and plenty of free market advocates have pointed out that overly bureaucratic procurement policies in Britain often favour big firms and existing suppliers over more open competition.[118] As we saw in Chapter Three, preferential procurement exercises such as this can, counter-intuitively, increase the amount of suppliers and thus drive down prices through increased competition (though not in all cases). And as Preston's civic leaders claim this as one of their objectives – albeit occasionally – it seems entirely fair to take them at face value, particularly given their strong economic performance in recent years.

Nevertheless, whilst the protectionist charge levied at Preston is easy to refute, it is worth considering as a thought experiment what would be so objectionable about the charge? After all, many heterodox development economists – for example, Ha-Joon Chang – contend that all major developed economies used protectionism successfully to build up their industrial base.[119] Whether it is Britain and America in the 19th centuries, Japan and China in the twentieth, or parts of Africa today, this argument – loosely labelled 'infant industry' theory – maintains that developing countries should shelter their economies from the fiercer winds of the global economy until their exports are ready to compete. Again, this puts things a little grandiosely and the elision between poorer communities in developed countries and developing countries more broadly rather stretches the metaphor. But might it not be appropriate to change the rules of the game so that poorer, less resilient areas are more 'protected' in some way from global competition? Or, to put it another way, should we be trying to encourage an element of economic variation even at the level of liberal trade agreements such as the single market, which might benefit some areas more than others? Might Preston and similar areas not benefit from being able to indulge in localist procurement that goes above and beyond current competition law in a way that would be inappropriate for economically powerful areas such as London?

Well, that all depends on whether such policies are the driving force behind Preston's recent economic renaissance – and at the moment, without more robust evidence, it is difficult to say. Something certainly seems to be working in Preston but that might be because the current competition framework, alongside the creativity of the existing CWB approach, strikes the perfect balance for a local economic renaissance. Or, alternatively, Preston's approach may well be largely zero-sum after all – without a stronger base of practical evidence this seems a more difficult charge to refute than the theoretical allegations of protectionism. To be clear, even if Preston's approach were largely zero-sum it might still be an important policy toolkit for generating a fairer distribution of wealth and local growth across the country. But it would limit the approach's effectiveness somewhat as a paradigm for place-based growth policy everywhere.

In conclusion, we are hopeful that Preston is not zero-sum – theoretically we are attracted to the argument that the flow of wealth in an area can impact upon local multiplier effects. And, acknowledging our desire to encourage a more innovative and creative approach to local policymaking, we would like to see more CWB experiments across the country, not least to develop a greater evidence base. Most persuasively of all, the Preston model is clearly working for Preston: it has a strong body of empirical evidence to back up its success and appears to enjoy the democratic confidence of Preston's citizens. But whilst we are instinctively supportive of such localist procurement, it is too early to draw firm conclusions about its whether it would have a positive economic impact if adopted across the country.

05.

Where next for community wealth building?

In Chapter Four we explored the various components of Preston's community wealth building (CWB) approach – worker cooperatives, municipal ownership, localist capital investment, anchor institutions and localist procurement – at a technocratic level. However, our broader conclusion was to welcome Preston's approach as a reimagination of what is possible in terms of local economic stewardship and hope it inspires other local leaders to take a similarly creative approach to civic leadership.

Yet given we would want to see more councils experimenting with CWB (and, for that matter, other ways of moving beyond current place-based orthodoxy) there is a valid question about what policymakers could or should do to improve, strengthen or enhance it – in Preston or elsewhere. A careful balance would obviously need to be struck – many CWB advocates would rightly resist too much top-down interference, however well meant. Nevertheless, it is difficult to meet anyone in the place-based policy world who is either happy with the UK's current levels of centralisation, or who believes this status quo is not a crucial component of this country's unequal geographical distribution of wealth. Therefore, we believe expanding the CWB toolkit could help meet three objectives:

1. It could find better solutions where current policy is imperfect – for example, in a potential overreliance on local pension wealth as a source of patient capital investment.

2. It could further strengthen the areas where we find CWB to be particularly attractive – for example, encouraging more worker cooperatives.

3. It could give civic leaders interested in CWB a more expansive toolkit, thus further boosting devolution and the options for policy experimentation in local democracy.

Based on these objectives and our assessments in Chapter Four, we have identified three key policy goals an expanded CWB agenda should aspire towards:

1. New, economically resilient alternatives for patient capital finance and investment in poorer communities;

2. More opportunities for co-operative enterprises to thrive and flourish;

3. More economic and financial powers for civic leaders.

Our first recommendation is to draw up a new spatial policy called Community Wealth Zones:

Recommendation One: National Policymakers should trial and fund a place-based Community Wealth Zone scheme, equivalent to Enterprise Zones, where economic rules vary from areas outside the zone. As well as investment, Community Wealth Zones could include an expansion of Preston's 'localist' procurement policy – and this should be included as a negotiating objective for the UK's future relationship with the EU.

The principle of using spatial ‘zones’ – where significant economic rules and fiscal policy can differ – is well-established. For decades the UK has used Enterprise Zones as a targeted place-based initiative and more recently the US has embarked upon a massive Opportunity Zone investment programme as part of President Trump’s tax reforms. However, both these – and similar US programmes such as President Clinton’s Empowerment Zones – might best be described as ‘place-based deregulation’: the main thrust of the policies are tax incentives to encourage business activity or inward investment. Clearly both these initiatives can and have brought economic benefits, yet such place-based deregulation has often been criticised for encouraging volatile economic development of precisely the sort Preston encountered when its Tithebarn regeneration scheme hit the buffers after the financial crash. There may be merits to such policies on their own terms, but they are a poor fit for expanding CWB which is explicitly designed to improve economic resilience and produce less volatile, if perhaps also initially lower, growth.

Furthermore, the question raised in part by infant industry development economists is whether some poorer areas, even in the developed world, should be protected from the fiercer winds of global competition? To be clear, as Chapter Four discusses, Preston’s procurement policy is not protectionist in this sense and operates within the EU’s competition framework. It is not explicitly ‘localist’ in the sense that restrictions are placed in tenders so that only Preston firms can win contracts – this would make it illegal. Instead, it blends conventional policies that seek to favour SMEs (reduction in red tape, smaller contracts, pre-tender engagement) with social value provisions (such as, for example, all suppliers must provide living wage employment or generate local training opportunities etc.) that Preston believes will give local firms a better chance. Thus neither EU treaty principles nor its specific procurement directives (or, for that matter, the World Trade Association’s (WTO) plurilateral Government Procurement Agreement) are violated.

Yet the question should be asked: as we are leaving the EU might it not be possible to make this more explicit and increase the ability of councils to procure locally? Well, yes – but even if Britain’s future relationship means fully leaving the single market (which enshrines the open competition principles that curtail such an approach), few future free trade agreements (FTAs) are likely to be struck – with the EU or anyone else – that allow this to be done in an unrestricted, unilateral and one-sided manner. But might it possible to expand the tool-kit and pursue more directly localist procurement if there were some clear and multilaterally agreed restrictions?

To be clear: even if Britain did enjoy unilateral powers in this area, restricting any beefed-up approach to clearly identified and economically disadvantaged areas would be wise – encouraging localist procurement across the board would validate many of the zero-sum criticisms levelled at CWB. More than that, it might also weaken CWB’s attempt to be a regionally inclusive policy option – allowing London, for example, to pursue a London-only procurement policy might boost rather than undermine the clustering of wealth and power. The key question is whether or not the EU might accept this as a mutually beneficial policy if regionally restricted and, in exchange, the EU were allowed to restrict British entrants to certain ‘local’ procurement processes across the continent.

For two reasons, we believe this may be possible. First, at the technocratic level there is a policy precedent in state aid regulations – member states can already give state aid support to more disadvantaged regions through regional investment. This is carefully managed by restricting such investment to specific areas – called Assisted Areas - with each member state recording and submitting a designated Assisted Areas map to the EU.[120] This would therefore seem to be a tacit political recognition that the EU's economic policy framework does require some spatially focused amelioration in the interests of economic rebalancing.

Second, the raw politics of this issue might make a compelling pitch to the EU. After all, Britain is far from alone in seeing regional economic discontent nurture and coalesce into a wider political anger. The recent Gilet Jaune protests in France are merely the latest symptom of a political malaise that appears to affect vast areas of the continent – Southern Italy, Eastern Germany, parts of Austria and beyond. In light of this the EU's economic policy – its inflexibility and lack of responsiveness – must surely come into question. The single market, for example, whilst clearly an incredibly beneficial exercise for Europe's economy in the aggregate, is rather a blunt instrument when it comes to adapting economic rules to local economic crises. And whilst regional development is an important tool here, redistributive hand-outs have a poor record in building political support for the EU, perhaps because of their inability to convey economic dignity on the area itself.

Needless to say, this argument is ultimately speculative. But we wonder if the EU would be interested in testing a policy mix that seemed to promote more localised wealth creation as part of a political fix. Therefore, we recommend that alongside greater investment and other policies (see below) that the UK seeks to embed mutual Community Wealth Zones into its future relationship with the EU. This is a chance to be truly innovative in our approach to FTAs, locking in different pathways to economic security as well as trade liberalisation. Our hope is that if successful, such regional targeting might also lead to greater support for both trade agreements and free trade generally. Certainly, it would be a travesty if trade liberalisation went into to reverse because its outputs, such as the single market or FTAs, were not sufficiently flexible to deal with pockets of economic disadvantage.

Our second recommendation deals with another problem that EU law creates for CWB, this time for municipal ownership:

Recommendation Two: On leaving the EU, Britain should take steps to ensure that its new state aid framework allows for the transfer of publicly owned assets to local authorities.

As Chapter Four set out, we are largely agnostic on municipal ownership. Some of its possibilities – particularly in the renewable energy sector – excite us, but ultimately it is a matter for local democracy. It may well be wearingly technocratic for some, but we believe that management quality almost always matters more than ownership structure and neither private or public owners have a monopoly on good (or bad) management.

Moreover, that idea that EU state aid rules significantly curtail nationalisation is something of a canard. Some practices – direct subsidies for private industries, appropriation without compensation – are rightly prohibited for fair competition reasons. However, one area that we believe is too restrictive is that currently the rules might preclude the state from transferring national public enterprises (e.g. Network Rail) to local authorities without the local authority – or other public body – paying full market price. So should the UK decide to nationalise its water companies as a precursor to municipalising them, the eventual owner of the asset might have to repay the central government (which should, rightly, have had to pay the market rate to nationalise from the private sector in the first place) to avoid being classified as state aid. This seems to be an unnecessary barrier to carrying out any municipalisation of nationalised or renationalised enterprises and it is odd that other parts of the state should function as private companies in this manner. The UK has the chance to correct this as part of negotiating its future relationship with the EU and as it does not unpick the more substantive regulations pertaining to distorting competition, there may be reasonable scope for an agreement or clarification of the rules.

The replacement of EU investment funds represents another opportunity to shift our domestic policy settlement. In the most recent settlement 2014-2020, the EU has committed to spend £5.8bn in Britain as part of the European Regional Development fund and a further £4.9bn as part of the social fund.[121] In Chapter Three we saw strong evidence that cooperative enterprises can boost economic resilience. However, cooperatives also famously struggle for capital access, which can be a key barrier to their long-term growth. Therefore, we believe some of the money that the UK spends to replace the European Regional Development fund should be spent on providing resilience capital for small worker co-operatives. This need not be excessively large at first – around £1bn might be enough to underwrite a small Co-operative Resilience Fund. Again this should be a targeted in designated Community Wealth zones:

Recommendation Three: Part of the money committed for replacing the EU Regional Development Fund should be used to set-up a £1bn Co-operative Resilience Fund in order to ensure smaller worker cooperatives have decent capital access.

Furthermore, at a practical level, an estimated 180 Acts of Parliament were subsumed into the 2018 European Union (Withdrawal) Act – the so-called 'Great Repeal Bill. By necessity this was a cut and paste of EU law into UK statute, with almost all powers being concentrated in Westminster. This is not tenable in the long-term and we need a commission - encompassing all political parties, all devolved administrations, local authority, business and civil society representatives - that looks at this at in depth to decide where powers should ultimately reside: in Westminster; with the devolved nations; with local authorities or directly with communities and people themselves. The Commission's guiding principle should be subsidiarity – power should reside as close to people and communities as is practically possible:

Recommendation Four: The Government should set up a Commission that seeks to establish where powers returned from the European Union will reside. Its guiding aim should be the principle of subsidiarity.

Moving beyond Brexit, there is much the Government can do to embolden local democracy and improve procurement policy domestically too. In procurement, one area that has been repeatedly called for - including (certain conditions being satisfied) by Lord Young's 2015 review for the Government – is the extension of social value provisions to all procurement (i.e. including works and goods procurement as well as services).[122] This would certainly boost CWB experiments and we hope it will form a key part of the Government's developing civil society strategy:

Recommendation Five: The Social Value Provisions of the 2012 Public Services Act should be extended to all public procurement, including works and goods.

The Government should also continue to push fiscal powers out of Westminster in order to stimulate creative civic leadership. Countless research has called for further decentralisation of local government finance through policies such as removing yearly budget cycles in favour of five-year ones, allowing more flexibility in using reserve funding for capital investment and removing revenue ring-fences. Equally, there is much discussion about devolving tax takes – on property taxation primarily - to local authorities in exchange for reduced revenue grants. These are all good ideas (though the roll-out of business rates retention will be a good test case to see if fiscal retention can be adequately squared with progressive redistribution) but one of the most important fiscal tools remains missing: the ability of local authorities to raise revenue directly through taxes. Around the world cities and councils can levy taxes – tourist taxes, hotel taxes, local property taxes – and democracy is more than a good enough check and balance to prevent gratuitous rises. Therefore, we recommend:

Recommendation Six: The Government should seek to promote fiscal retention of taxes to local authorities, whilst monitoring the impact this has on social justice. Local authorities should also enjoy tax raising powers and the Government should decentralise current restrictions on local government financing, removing yearly budget cycles and allowing for more flexibility on investment financing.

Yet one of the clearest problems facing civic leaders interested in CWB is, as the Preston example shows, attracting resilient investment. After all, it is all very well suggesting that frothy inward investment is bad, but poorer areas do need some stimulus to economic activity. The state should, as part of Community Wealth Zones, play a big role in that and we have already suggested a specific Co-operative Resilience Fund as part of the process of replacing EU direct investment. However, as we set out in Chapter Four, we are uncomfortable with the existing suite of options being considered by Preston and other CWB enthusiasts, namely the use of local pension finance as the primary source of patient investment capital. There will always be cases where there is a win-win; where local projects can provide a better return on investment than investments outside the respective Local Government Pension scheme area. But the perfect scenario is a poor basis for policy and we are uncomfortable with a dilution, however implicit, of pension funds' ultimate responsibility to policyholders.

We believe the best solution would be to attempt to emulate the German Sparkassen banking system – a system of local savings banks, underwritten by the taxpayer. These banks use local saving deposits to invest primarily (though not exclusively) in local projects. Their connection to the local area is solidified by a stakeholder governance model, where local political leadership, as well as civil society representatives, ultimately decide the bank's strategic direction. This connects it to the area, rooting it within local democracy.

Of course, Sparkassen holdings contain later-life savings too, so one objection might be: what's the point? Furthermore, like any financial institution, the Sparkassen are not without flaws. Indeed, as Frances Coppola has argued persuasively, the Sparkassen also made bad investments during the run-up to the financial crisis that were ultimately bailed out by the state via moral hazard.[123] Nevertheless, with holdings of €1.2 trillion – approximately 15 per cent of Germany's banking assets – they are a crucial component of both its regional inclusion and business investment strategies, each of which is an area where they clearly outcompete the UK. Yes, one should always be wary of importing culturally distinctive institutions and there is no doubt that this huge undertaking would have to be somewhat adapted for the UK's own financial culture. Nevertheless, compared with the status quo it would bring an institutional clarity to patient capital lending for businesses and it seems to us a valuable policy for tackling Britain's unequal distribution of wealth and financial power – and certainly one that should be explored in any expansion of CWB's possibilities. Therefore, we recommend:

Recommendation Seven: Working with civic leaders, the Government should establish and underwrite a network of democratically owned 'Sparkassen-style' local savings banks as a route to patient capital investment. The first institutions should be established in designated Community Wealth Zones.

Finally, one policy that has been successfully used by CWB in America is 'community land-banking'. This is a policy that has specific resonance in the US as an answer to the challenge of vacant, foreclosed homes – some 600,000 according to the Brooking Institute.[124] Essentially it involves the buying up, retro-fitting and redevelopment of vacant lots into a public or community owned land holding. When the new houses are sold, the council or trust banks the money, reinvesting it into more development.

This is an attractive idea given the UKs housing affordability crisis – but it is important not to see this as a housing supply policy. Rather it is about encouraging regeneration in the most difficult to regenerate communities that more market-friendly regeneration policies naturally ignore. It perhaps lacks the radical urgency that the American context provides it given our comparatively fewer empty homes, but it could still have some use here in the UK. Curiously, it is not as prominent in the CWB debate over here – but seems an obvious way to expand the approach:

Recommendation Eight: The Government should encourage the formation of co-operatively owned land banks, based on the American land-banking movement, in Community Wealth Zones, providing guidance and capital where necessary.

Conclusion:
Toward a new municipalism

Community wealth building - and Preston's distinctive application of it – has lit an intellectual fire that is undeniably exerting a positive influence on civic imagination across the country. As we said in Chapter Four it represents a reimagination, born through adversity, of what is possible in terms of local economic stewardship. It would, as we noted in Chapter Three, be a stretch to suggest there was a deep evidence base for its theory of change (though some areas, such as the positive effect worker co-operatives can have upon economic and financial resilience are better evidenced). Certainly, its central claim – at least in the Preston context – that a more avowedly 'localist' approach to procurement will always benefit the local economy by ensuring more money 'sticks' can not be conclusively sustained or denied owing to a lack of detailed analysis.

Nevertheless, it is also clear that community wealth building across the world frequently correlates with some improved economic indicators and this is especially so in Preston. We are happy to conclude therefore, that community wealth building marks an important development in the evolution of place-based policy initiatives that attempt to answer what we see as the two most important and related questions in contemporary British politics: how to create wealth sustainably in communities themselves and how to create wealth more equitably at the national level. Community wealth building draws a connection between these two questions that we support and directly seeks to answer them. Its performance should be monitored over time to create a better evidence base around it, but we are theoretically optimistic about its chances. If the experiment is refined and deepened by including some of the recommendations we put forward in Chapter Five, so much the better.

Yet it is also important to situate both the Preston model and Community Wealth Building into a burgeoning collection of ideas that has been labelled 'the New Municipalism'. This philosophy - loosely led by the "Fearless Cities Movement" that grew out of Catalonian housing activist Ada Colau's successful campaign to become Barcelona Mayor in 2015 – is an attempt to connect cities and towns across the globe in order to build a global movement around municipalism as a means to democratising power. Like any movement or policy programme organised around the distinctiveness of place, this 'new municipalism' is not always philosophically coherent in a theoretical sense. Nor, as with Preston and community wealth building, has it formed in an ideological vacuum – it is clearly of the progressive left. Nevertheless, what is important about this new municipalism is that it not merely a reheat of traditional left-wing politics at a local level, nor even primarily focused on generating economic growth. Rather, its guiding principles are that a genuine devolution of economic power is important to reinvigorate participative democracy; and that municipal identities can provide a collective response to an era of increased social division and culture war politics. In short, this new municipalism is about power and the need to rebuild a healthy and flourishing demos from the bottom-up – an objective which could almost serve as a mission statement for Demos' own transformative goals.

Community wealth building, with a more explicitly economic focus, is not the same as the Fearless Cities movement but it is undeniably part of the same civic awakening that is currently renewing progressive politics. Their shared insight is not just that the concentration of power and wealth in too few hands is a threat to real democracy but also that the response to this must come from the ground-up. This is an important and potentially transformative turn in progressive politics that all those concerned with the unequal distribution of power and wealth in Britain, not just progressives, should welcome.

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