

# CREATING A GOOD LOCAL ECONOMY

## THE ROLE OF ANCHOR INSTITUTIONS

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### **About the author**

This policy paper was written by Matthew Jackson, Deputy Chief Executive and Neil McInroy, Chief Executive of CLES. For further information or thoughts please contact Matthew on 0161 236 7036 or [matthewjackson@cles.org.uk](mailto:matthewjackson@cles.org.uk)

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# INTRODUCTION

We need good local economies.

We need local economies where wealth creation improves the economic and social fortunes of people and communities - bringing benefits for all.

A good local economy is one where there are strong networks across the of public, commercial and social sectors. Networks and leadership which stewards investment, so that it brings a range of economic, social and environmental benefits.

Over the last eighteen months, the Centre for Local Economic Strategies (CLES)<sup>1</sup> working in partnership with Preston City Council<sup>2</sup> have been working on improving and developing a good local economy.

The action research work has sought to engage with and influence anchor institutions based in the local authority boundary so that their behaviour and activities bring maximum benefit for the local economy and creates wealth for the local community. This paper reflects upon the findings of the work and the change it has instigated; together with exploring how the impact of the anchor institutions can be maximised in the future.

The work is framed by a much wider discussion and debate about how the economy of places operate and perform.

The paper comprises the following sections:

- Section 2 outlines the challenges our local economies face and the theoretical underpinnings of more progressive local economies including components which enable a good local economy;
- Section 3 outlines the activities which have been undertaken in Preston with the anchor institutions including supply chain analysis and the core findings of these activities;

- Section 4 details the key changes in the behaviour of the anchor institutions as a result of their engagement in the project and wider influences;
- Section 5 details the means by which anchor institutions can maximise the impact they bring in the future, notably through the process of procurement.
- Section 6 details the next steps for activities with anchor institutions and wider, which need to happen to maximise community wealth and ensure a good local economy is progressed.

1 [www.cles.org.uk](http://www.cles.org.uk)

2 [www.preston.gov.uk](http://www.preston.gov.uk)

# CREATING A GOOD LOCAL ECONOMY

*"I can't myself raise the winds that might blow us or this ship into a better world. But I can at least put up the sail so that when the winds comes, I can catch it."* E.F. Schumacher.

*'Although we talk a lot these days about globalisation, about a world grown small, when you look at the economies of modern cities what you see is a process of localisation: a steadily rising share of the work force produces services that are sold only within that same metropolitan area.'*

Professor Paul Krugman, Professor of Economics, Princeton University.

Despite a general rise in economic prosperity and a rising standard of living, the UK remains a land of haves and have-nots. Our local economies are facing unprecedented challenges:

- The economic growth that is being created tends to benefit a few, rather than the many;
- Local social and economic inequality is growing.
- There are not enough jobs being created to match labour market demand;
- The jobs which are being created are often of insufficient quality and with poor terms and conditions;
- Our workforces and businesses are not being productive enough;
- Our public services are creaking from the increased demand associated with recession and cuts;

A true progressive agenda needs to tackle this. A progressive future is about an economy which works for all. **Local economies are a key part of this future.**

All places are subject to global forces of economic competition and flows of investment. To be successful, all places must fly bespoke local sails which capture positive global economic winds, ensuring investment and opportunities land here, powering us to a future of greater prosperity. However, our future is not only linked to these global winds.

Paradoxically, despite the global economy and the attendant global culture, we as a nation – like many others – maintain a desire for the locally authentic. We crave a distinctiveness to our cities, towns and rural areas, hankering for making a 'mark of place' within this globalised world. Indeed as the quote above from Krugman highlights, while the long term trends of globalisation might suggest a reduced importance of the local economy, we are in fact seeing a trend of a growing localisation of the economy, with local supply servicing local demand.

**Despite a general rise in economic prosperity and a rising standard of living, the UK remains a land of haves and have-nots.**

## Building local economic resilience

We know that local areas which become locked into a single economic sector, or misread the scale of social, cultural and technological shifts or fail to plan for resource depletion, may well be left behind. This will not change. Indeed this pattern is speeding up – with consequent economic, social, cultural and environmental damage becoming the new normal. Local flexibility, resilience and how our economies 'bounce back' from adverse change is important to us all.

In the last 8 years, as the global economy imploded from the financial crash, we have become increasingly aware of the need for national and local flexibility and resilience. Policies which sought to deregulate, to favour financial interests and the enticement of global capital and to shift the nation state away from significant internal redistribution, need to be questioned. The dominance of financial services over manufacturing, and global corporate retail over local independent services, are key weaknesses. We must acknowledge that our local economies, including our town centres, have become hollowed out, vulnerable to the vagaries of the global economy and inchoate financial markets.

## **In the last 8 years, as the global economy imploded from the financial crash, we have become increasingly aware of the need for national and local flexibility and resilience.**

The global economy has great powers and perils. As such, we must engage wholeheartedly with the global economy. It cannot be bucked. However at the same time we must also re-position and reset local places in relation to those global economic forces, creating networks of local economic activity that are more independent and self-sustaining. This thinking complements that of Mariana Mazzucato<sup>3</sup>, Phillip McCann<sup>4</sup>, and the Centre for Research on Socio-Cultural Change at the University of Manchester<sup>5</sup> who all state that the role of the local state is not just to address market failures but to enable market creation and to shape itself rather than be led by external factors. This type of innovation can happen through commissioning and procurement processes, for example, which emphasise the economic, social, environmental and technological challenges facing our places and society more generally.

## **A local economic reset: warming the economy**

Current pathways to economic development have proven inadequate. Economic development should never just be about increasing commercial wealth; it is also about providing the public and social sector inputs into commercial success and positively contribute to the places in which wealth is forged. The conventional logic by which investment capital is enticed and landed from elsewhere and local jobs are thus secured is flawed. Global investment is footloose and fancy free, and often moves away once the initial public taxation and planning enticements are gone. Local jobs are not always guaranteed, and the wealth generated is all too often distributed to far-flung corners of the globe, rather than to local people and communities.

The Scottish founder of modern economics – Adam Smith – in his books *The Theory of Moral Sentiments* and *The Wealth of Nations* tells us we have two vital interdependent elements in society – benevolent self-interest and a need to empathise with the social plight of others. However, the economic policy world has and continues to overlay ‘self-interest’, seeing the economic sphere as a distinct and opposite pole to the social sphere. It is not. They are and should be one and the same. Therefore, the aim of the economy should be about improving social conditions, in which wealth creation in any society is not just about private gain, but is primarily about the development of human and social life and a decent standard of living for all<sup>6</sup>.

A local economic perspective is important as an intimate means of making an economy real – keeping it in touch with social outcomes and social progress. It is about making an economy ‘warm’. Local economies are made up of a network

3 Mazzucato, M. (2015) *A mission-oriented approach to building the entrepreneurial state*.

4 McCann, P and Ortega-Arigoles, R. (2011) *Smart Specialisation, Regional Growth and Applications to EU Cohesion Policy*.

5 Centre for Research on Socio-Cultural Change (2013) *Manifesto for the Foundational Economy*. <http://www.cresc.ac.uk/medialibrary/workingpapers/wp131.pdf>

6 McInroy, N (2014) ‘The Power of the Local Economy’ In Davies, T (Ed) *Towards the Local: Devolution and Democratic Renewal in Scotland*. Scottish Fabians

of social, public and commercial activity – all interconnected and dependent on one another. For instance, a successful private economy is built on the back of both decent public services (e.g. transport and education) and strong social capital which nurtures families, creates safe communities and forges robust and productive workers. A local economic reset means that economic stewardship needs to hone in on the local and the small-scale possibilities which arise at the nexus between people, local places and the economy.

A progressive local political economy has a set of principles in which the fortunes of the local economy are not separate from local social life and local places, but intrinsically connected to it. Indeed, social progress is both an input and outcome of economic success.

## Towards a good local economy

CLES have stated in the Manifesto for Local Economies<sup>7</sup> that the way in which local economic policy is designed, legislated for, strategized, and delivered needs to change. The abiding theme of ‘trickle down’ does not work. In contrast, we need local economic policy which creates a good local economy. By this we mean a progressive local political economy which is not just about ‘a rising tide will lift all boats’.

In policy and delivery terms, this means: redistributing and devolving from the centre in a way which can bring a double dividend<sup>8</sup>; twinning growth with social justice agendas and public service reform. This includes options which ensure that economic activities are locally jobs rich; that the poorest benefit; that economic activity supports ‘local’ supply chains and a repatriation of some public sector spend so it benefits local businesses, voluntary and community sector

organisations and local people.

Crucial to a good local economy is building from within; so local economies use the assets, businesses and people they already have at their disposal to make sure investment becomes more virtuous. CLES would argue that there are four components to a more virtuous and good local economy.

**A local economic perspective is important as an intimate means of making an economy real – keeping it in touch with social outcomes and social progress.**

### Component 1 - democratising the economy

It is important that a good local economy is democratised. By this we mean a plurality of ownership of public sector assets and activity, wider participative democracy across civil society and representative democracy which is open and porous. This is important because decisions must be deeply embedded in principles of democracy reflecting the wants, needs and desires of citizens and communities, not just powerful and vested interests.

Adopting an alternative approach to economic development is a brave move which requires a democratic vision and local state innovation. In the UK, the norm over the last 30 years has been to follow the well-trodden route of attracting inward investment, creating a ‘knowledge-driven’ economy, and policy to stimulate growth. In this, the pursuit of economic growth is of much higher order importance than poverty and economic fairness. A more democratic economy is one where issues of inequality and poverty are an intrinsic part of economic decision making and activity.

This democratisation of the economy is a significant progression from local state paternalism. Instead, it is about local government being the active enabler, encouraging and inspiring self-determination

7 Centre for Local Economic Strategies (2015) The Manifesto for Local Economies. <http://www.cles.org.uk/wp-content/uploads/2015/03/CLES-Manifesto-2015.pdf>

8 Centre for Local Economic Strategies (2015) The local double dividend: securing economic and social success. <http://www.cles.org.uk/wp-content/uploads/2015/01/Double-dividend-Final.pdf>

from a range of sectors and innovative collaboration and crossover between social, public and commercial networks .

This democratisation of the economy is often beyond the ken of conventional national economic statecraft. The local state, however, is expert in working with local social and commercial partners to curate and steward the places in which we work, do business, live and bring up families. The central state has a role, but it is not subtle or nuanced enough to pick up on the local bespoke insight and relationships. Progressive local place-based actions of the local state, as purchasers of goods and services, as employers, as the owner of land and buildings, as pension scheme provider, as an investor and as a partner with the local private sector, should take a more prominent role to 'lock in' or stimulate local economic benefit and the good local economy.

## **Component 2 – recognising the scale of anchor institutions**

There is already an array of capital in financial terms available in our places. Whilst large corporations provide some of the capital there are other large, often public organisations which create jobs and purchase goods and services. We define these organisations as 'anchor institutions'; an anchor institution is an organisation which has a key stake in a place. It will have significant levels of spend and numbers of jobs, and is extremely unlikely to leave due to market forces. Anchor institutions typically include: local authorities, universities, further education colleges, hospital trusts, and housing organisations.

The concept of anchor institution is common in the United States, and places are beginning to reap their benefits. However in the UK, only really Belfast and Preston (as explored in more

detail further on) through work with CLES have recognised the role of anchor institutions. The key to a good local economy is ensuring that the capital and general activity associated with the day to day operation of the anchor institutions is retained within the local economy, as much as possible. Indeed, anchor institutions should have a keen interest in their local economies: they recruit from and serve local communities; they have a profile in that local economy; and they can contribute to wider outcomes including better health and crime reduction.

## **Component 3 – using the potential of procurement**

The process of public procurement has often been viewed as a bureaucratic one; heavily influenced by European Procurement Law and with cost as the primary decision making element in selecting contractors and suppliers to deliver goods and services. Procurement, and indeed the commissioning process which goes before it should be seen as a tool which is not solely about efficiency but also effectiveness, bringing a string of economic, social and environmental benefits for the locality in which the good or service is being delivered.

**Whilst large corporations provide some of the capital there are other large, often public organisations which create jobs and purchase goods and services.**

Procurement is an important area of spend for places with local authorities currently spending around £80bn per annum buying goods and services. Anchor institutions including universities and health organisations will spend significantly more. CLES has over the last eight years been at the forefront of work with local government seeking to shift the cultures of procurement officers so that spend reaps maximum benefit for the local economy<sup>9</sup>. Our work has measured the impact of

9 Centre for Local Economic Strategies and Federation of Small Businesses (2013) Local Procurement: Making the most of small business, one year on. <http://www.cles.org.uk/wp-content/uploads/2013/07/FSB-procurement-2013.pdf>

spend; worked with commissioners, procurers, and economic development practitioners; and influenced the behaviour of existing suppliers.

Local government delivers things directly, like social services, schools and parks. However, it also buys things like school desks and grass cutting machinery. This buying of goods and services can contribute to fairness and equality. It can be virtuous. Indeed, if done right, it can be used to encourage progressive inclusive practices in wider supplier behaviour, which in turn support local economies, deprived communities and groups with protected characteristics. Much local authority activity and commentary has demonstrated the significant value that a bend in local spend can bring. Indeed, some local authorities carefully monitor spend and its 'ripple effects' upon local economies.

The outcome of CLES' work around procurement, and that undertaken organically by local authorities, has been a reduction in the silo-ed nature of procurement; progressive procurement strategies with emphasis on both efficiency and effectiveness; and ultimately greater impact for local economies. In Manchester, nearly 65% of spend is now with suppliers based in the local authority boundary, compared to a baseline 2008/09 figure of 52%<sup>10</sup>. This spend supports over 5000 jobs for Manchester residents. Procurement is one of the main functions which places can exert an influence over; it is not just local authorities who are procurers, but also anchor institutions, and is therefore a key component in enabling a good local economy.

## Component 4 – Cooperative creation

In Cleveland, Ohio<sup>11</sup>, United States; Mondragon, Spain<sup>12</sup>; and Emilia Romagna, Italy<sup>13</sup>, for example, a new model has shaped local economic improvements and more virtuous local economies. This model is based around the notion of developing from within, through the creation of worker led cooperatives to deliver key aspects of public services and provide other goods for the local population; creating jobs and enterprise in the process.

Critical to the effectiveness of the model in Cleveland has been the engagement of anchor institutions and encouraging them to think about their procurement practices: firstly in terms of utilising local suppliers; and secondly in terms of the scope for newly formed cooperatives to deliver services and provide goods. The model has been successful, with cooperatives now delivering laundry, energy and catering services for a number of anchor institutions, including universities and hospitals<sup>14</sup>. The construction associated with the University Hospitals Vision 2010 Program created some 5000 jobs over five years. A particular emphasis was also placed upon minority and female owned businesses and cooperatives, with some 110 of these successful in bidding for contracts over the five year period<sup>15</sup>.

The activities being undertaken in Cleveland are part of a much wider systematic shift in the way in which economic development and community wealth building is being undertaken in the United States. This is being led by the Democracy Collaborative<sup>16</sup> and more recently through a range of organisations in The Next System<sup>17</sup>; a pan-America challenge to the current economic model.

10 Jackson, M. (2010) The Power of Procurement. <http://www.cles.org.uk/wp-content/uploads/2011/01/The-power-of-procurement.pdf>

11 <http://evergreencooperatives.com/>

12 <http://www.mondragon-corporation.com/eng/>

13 <http://www.bcca.coop/sites/bcca.coop/files/u2/ER-ProfileofCoop.pdf>

14 New Start (2012) A laboratory for a new economic development. <http://newstartmag.co.uk/features/a-laboratory-for-a-new-economic-development/>

15 Massachusetts Institute of Technology (2013) The Anchor Mission: Leveraging the power of anchor institutions to build community wealth – a case study of University Hospitals Vision 2010 Program.

16 <http://democracycollaborative.org/>

17 <http://thenextsystem.org/>

# WORK WITH ANCHOR INSTITUTIONS IN PRESTON

In thinking through the above ideas, we were eager to work within a local area to action them. In this we looked around our network and an opportunity within the city of Preston, Lancashire emerged.

## The challenges facing Preston

As already outlined, our local economies are facing unprecedented challenges. Whilst Preston, is in no way one of the most challenged, it does have considerable issues, which are akin to many areas throughout the UK. For example (at the Preston local authority district level):

- Increase in economic inactivity. In September 2014, 69,400 of Preston's residents were economically active. This is a drop from 75,300 in September 2012;
- Poor Pay. Gross weekly pay for Preston residents has fallen from an average of £451 in 2009 to £448 in 2014. It has been as low as £426 in this period;
- A decent local small business base. There are more active business enterprises in Preston than anywhere else in Lancashire, 4,945 in 2013, but few are delivering to their potential in terms of goods and services for local anchors;
- Austerity and Cuts. Government funding cuts have hit Preston City Council hard with cuts of over 50% since 2010, placing it in the top 10 of worst hit Councils in the UK.

## Overarching frame for work

The work in Preston has therefore been framed by the concept of a good local economy, and the four components outlined earlier, CLES' historic work around progressive local economic development, and importantly the challenges facing Preston detailed above. In particular:

- Preston City Council has the political vision, desire and leadership to address inequality and poverty. The Council was, and is pursuing a powerful socially focused approach to economic development. This is working to promote a local economy in which poverty and inequality is tackled, inclusive growth fostered and creative new ideas pursued in order to retain wealth and expand economic democracy. Preston City Council was the first accredited Living Wage local authority in the North of England. Key for Preston City Council is that this social inclusion agenda is not just the domain of the Council but also that of other stakeholders including anchor institutions. The vision is to ensure fairness is at the heart of the City, including in the behaviour of anchor institutions. This is detailed in a Fairness Charter which was adopted in January 2015<sup>18</sup>;
- There was, and is a scale of anchor institutions which are based in Preston. This includes amongst others, two local authorities, a higher education institution, two further education institutions, police, fire and rescue, hospitals, and housing associations. There was a feeling that they could be doing more for the Preston and Lancashire economies.
- There was, and is a need to maximise the benefit which anchor institutions in Preston bring to the local economy through their

<sup>18</sup> Information about the range of social justice focused activities being undertaken in Preston are detailed here: <http://www.preston.gov.uk/thecouncil/about-preston-city-council/our-fairness-agenda/progress-towards-fairness-charter/>

procurement practice and behaviour. Additionally there is scope to learn from the findings of work undertaken by CLES in localities such as Swindon, Manchester, and Belfast, and nationally with the FSB which have demonstrated how shifts in behaviour around procurement can lead to a range of local economic, social and environmental benefits;

- There was, and is a realisation that places could do more from within to stimulate local economic development, including the creation of worker led cooperatives; and that elements of models similar to Cleveland, Mondragon and Emilia Romagna could potentially work in Preston.

## Activities undertaken in Preston

The above frame has shaped the work undertaken by CLES and Preston City Council over the last eighteen months to seek to maximise the impact of anchor institutions<sup>19</sup>. It should be noted that the change required to fulfil the political vision is significant, and as such the work undertaken to date is the starting point for a longer term approach to addressing poverty and inequality. This is why our main focus has been upon influencing the behaviour of anchor institutions around procurement. Drivers around cooperative development will come later in the process, as anchors understand their spend more effectively and are able to exert more influence over their decisions-making processes. The work to date has therefore sought to do three things:

- 1) To engage anchor institutions in the work, get them thinking about how they maximise impact for the locality through procurement, and create community wealth through cooperative development;

- 2) To develop a baseline understanding of the spend of anchor institutions in Preston through procurement;
- 3) To identify ways in which anchor institutions can seek to instigate change in their behaviour so that they bring more benefit for the local economy, through utilising local businesses to provide goods and services, and through potentially developing cooperatives.

The following section of this paper therefore outlines how the work has met these aims, particularly detailing the approach adopted and the core findings.

## Engagement of anchor institutions

The first part of the work was to engage the anchor institutions based in Preston, and build momentum. Engagement was undertaken at a senior level, including Chief Executives and Leaders (for local authorities). A second element of the conversation honed in on whether they would be prepared to share data about their procurement spend. Initial engagement and data was secured with, and from the following anchor institutions:

- Preston City Council (PCC);
- Lancashire County Council (LCC)<sup>20</sup>;
- Lancashire Constabulary (LC)<sup>21</sup>;
- Community Gateway (CG)<sup>22</sup> (housing association);
- Preston's College (PC)<sup>23</sup>;
- Cardinal Newman College (CNC)<sup>24</sup>.
- The University of Central Lancashire (UCLAN)<sup>25</sup>, whilst not involved initially are now engaged (spend analysis has not yet been undertaken).

19 There are a range of reports which CLES have produced as part of this work which are confidential in their nature as they are specific to the spending of the six anchor institutions

20 <http://www.lancashire.gov.uk/>

21 <http://www.lancashire.police.uk/>

22 <http://www.communitygateway.co.uk/>

23 <http://www.preston.ac.uk/>

24 <http://www.cardinalnewman.ac.uk/>

25 <http://www.uclan.ac.uk/>

At the outset, we made a decision not to directly include health organisations, as a result of ongoing reorganisation and the fact that hospitals and other health organisations utilise largely framework contracts for their purchasing, which are unlikely to include local organisations. There were a variety of reasons for anchors engaging with the project.

It was an opportunity to engage with other organisations for a common purpose. For others, it was seen as an opportunity to understand their spend more effectively. And, for others it was seen as an opportunity to potentially collaborate on service provision and different types of service provision in the form of cooperatives. It is important to note that there are different types of anchor institutions, some with a primary focus on Preston (PCC, CG, PC, CNC and UCLAN) and others with a base in Preston, but with a remit and footprint extending across wider Lancashire (LCC and LC).

## Baseline understanding of spend

The second part of the work was to get a baseline understanding of the supply chains of the six anchor institutions which provided us with data. We asked each anchor institution for their spend data for financial year 2012/13 for their top 300 suppliers (by value) and in turn broken down by the name of the supplier, their postcode, and the total amount spent with them in that financial year. We subsequently analysed the spend for each institution to understand:

- How much was spent with suppliers based in Preston and Lancashire (and by ward and area of deprivation) and how much leaked out;

- How much was spent with suppliers in particular industrial sectors, and subsequently the sectors where there was key leakage out of Lancashire; and
- How much was spent with suppliers classified as Small to Medium Sized Enterprises.

The findings for each individual anchor institution were then collated to glean an overarching picture across the six. The overarching findings were as follows:

- The anchors spent a collective £750million buying goods and services;
- 5% of this was spent with organisations based in Preston;
- 39% of this was spent with organisations based in Lancashire (including Preston);
- Some £458million leaked out of Lancashire with key leakage associated with suppliers providing: administrative activities; business activities; communications; and manufacturing.

For some anchor institutions such as LCC and UCLAN, given the scale of their spend, there is scope to look at suppliers beyond the top 300, as these are likely to be more local and smaller enterprises.

## Starting the journey of maximising spend

The findings of the baseline supply chain analysis were disseminated to the anchor institutions at an event, and additionally individually through meetings. The evidence presented suggested that there was scope to significantly enhance spend levels in both Preston and Lancashire economies; and that there was a desire to both support local businesses to potentially deliver goods and services to the anchor institutions, and to potentially address gaps through cooperative formulation. Procurement is a key lever for achieving wider local economic

benefit. Simply increasing spend in Preston by the anchor institutions from 5% to 10% per annum means an additional £37million directly being spent in the Preston economy. This has the potential to significantly outweigh the benefits that could be gleaned through other economic development initiatives which have longer timeframes (for example, the City Deal) and does not include consideration of wider spend upon employees, and the subsequent re-spend of that spend in local shops and upon wider services. Sustaining the 10% over a ten year period means an additional £370million being spent directly in the Preston economy.

At a further workshop, a statement of intent was therefore agreed across the six participating anchor institutions. The vision is:

*'A long term collaborative commitment to community wealth building in Lancashire for influenceable spend.'*

It is supported by the following objectives:

- To simplify the process of procurement, in order to encourage a diversity of organisations to bid for opportunities;
- To actively reduce levels of spend leaking out of the Preston and Lancashire economies, with consideration given on an anchor to anchor basis as to the scale of this reduction;
- To understand the Preston and wider Lancashire business base in more detail, and collectively encourage businesses and social enterprises to bid for opportunities;
- To develop the capacity of Preston and Lancashire based businesses to bid for opportunities;
- To collectively raise awareness of procurement opportunities amongst Preston and Lancashire based businesses;
- To identify services where there is potential for cooperative models of delivery.

Since the agreement of the statement of intent, the anchor institutions have started the journey towards meeting the objectives and maximising the impact of their spend for the Preston and Lancashire economies. This has been done both individually and collectively.

For example, Preston City Council have re-done supply chain analysis for financial year 2013/14 to seek to understand change. They have also forensically interrogated every contract in order to identify 'influenceable' spend (spend where there is scope for local organisations to potentially deliver that service or provide that good). Lancashire County Council have revisited their commissioning and procurement strategies to seek to get more benefit out of every procurement decision made by the authority. Lancashire Constabulary have applied the objectives of the statement of intent to emerging procurement decisions. Community Gateway have re-done their spend analysis and have continued to measure the wider impact of their spend using the Local Multiplier 3 methodology<sup>26</sup>. Additionally a cross-anchor procurement practitioners group has been set up.

26 New Economics Foundation (2002) The Money Trail: Measuring your impact on the local economy using LM3. <http://www.proveandimprove.org/documents/TheMoneyTrail.pdf>

# THE CHANGE INSTIGATED

Involvement in the work with CLES and Preston City Council has led to changes in the way in which anchor institutions based in the City operate and behave. The behavioural change has not only been instigated through the formal supply chain analysis and the statement of intent, but more voluntarily through attending the events and changing practice organically. The following details some of the key outcomes of the work for some of the anchor institutions and the changes they have made. It is important to note that the work is ongoing with outcomes largely longer term in their nature.

## Key changes

### Preston City Council

Preston City Council has re-done the supply chain analysis for financial year 2013/14 and also had more of a forensic look at leakage. The work associated with this project and other activities undertaken around procurement processes has seen the amount spent with suppliers based in both Preston and Lancashire increase to 17% (from 14%) and 33.5% (from 29%) respectively. Despite this, over £8million (nearly 50%) still leaks out of Lancashire (the analysis did remove one key contract as Preston City Council was effectively the accountable body rather than the purchaser). They have identified that around £3million of this leakage is **potentially 'influenceable'**, and have broken this down by the type of good and service (e.g. construction). Subsequently a database of existing businesses which are based in Preston which provide those types of goods and services has been put together. This will enable Preston City Council to consider the local market when looking to re-let those opportunities in the future, through making the local business base more aware of those potential opportunities.

### Lancashire County Council

Lancashire County Council have re-visited their commissioning and procurement strategies in order to make them more focused upon maximising economic, social and environmental benefit, as well as the more traditional focus on cost. They have also sought to reduce some of the barriers preventing businesses from engaging in the procurement process, including stratifying documentation and breaking contracts which involve a range of skills sets into small and more specific lots. A recent contract around fresh produce, for example was broken down to enable businesses just to bid for the lots associated with the produce they could provide, with distribution focused lots tendered separately. This benefited the Lancashire economy directly by around £2million.

### Lancashire Constabulary

Lancashire Constabulary do not have as much flexibility in their procurement processes as some of the other anchor institutions, as a result of being tied into procurement frameworks or for their requirement for specialist goods which are not available in Lancashire. They have however, used the events associated with this work to think through how they undertake some of their below European threshold spending. They require quotes from local organisations on procurements between £10,000 and £50,000, and have recently recruited a Lancashire based organisation to deliver a printing contract for the next 4 years, with a value of over £600,000 over that period.

## Community Gateway

Community Gateway have also re-done their spend analysis for financial year 2013/14 with similar levels of spend with suppliers based in Preston and Lancashire when compared to the previous financial year. Community Gateway have done further analysis of their spend using LM3, so they now know how their spend further circulates in the local economy through the additional spend of their suppliers and employees. This enables them to demonstrate their social value, something which is at the heart of their organisational ethos.

## Preston's College and Cardinal Newman College

Preston's College and Cardinal Newman College both have much smaller revenue budgets than the other anchor institutions; and indeed quite specialist revenue requirements. They do however have capital developments underway and are using lessons from this work to influence the behaviour of core contractors in their supply and labour choices. This includes the consideration of clauses around apprenticeships.

## Other institutions

The work undertaken in Preston with anchor institutions has also influenced wider policy agendas. It has played a key part in the discussions and output of the Lancashire Fairness Commission<sup>27</sup>. It has also progressed thinking around procurement in Blackburn with Darwen<sup>28</sup> and the role of various anchor institutions across wider Lancashire.

27 Lancashire Fairness Commission (2015) Fairer Lancashire, Fairer Lives, <http://www.lancashire.gov.uk/media/584910/4000-Fairer-Lancashire-Fairer-Lives.pdf>

28 <http://www.blackburn.gov.uk/Pages/Home.aspx>

# MAXIMISING THE BENEFIT OF ANCHORS

As already detailed, the work undertaken with anchor institutions in Preston has enabled the institutions to understand their spend more effectively, and change their behaviour in relation to their processes to maximise benefit for the local economy. The key in this work is momentum, which is why we have set up the Preston Procurement Practitioners Group. This draws together procurement and finance representatives from each of the anchors involved in the project, to discuss how they can continue to meet the objectives of the statement of intent on a day to day basis, both strategically and on each procurement decision.

The practitioners effectively need a toolkit of considerations when designing and deciding upon a procurement, which enables them to both achieve efficiency but also maximise local economic, social and environmental benefit. The following section therefore details ways in which benefit can be maximised at various stages of the process, encompassing: commissioning, strategy, procurement, and delivery. Where applicable, each mechanism is accompanied by a case study derived from CLES' previous work around procurement. It is important to note that not all these mechanisms will be applicable to all anchor institutions, with those focused around corporate priorities only really applicable to local authorities.

## **Service commissioning**

Local authorities and anchor institutions can enable and maximise economic, social and environmental benefit through the procurement process in the commissioning phase. This can include:

### **Linking procurement to wider corporate priorities**

The purpose of any procurement process must always be to commission services and goods which are required by service users in a cost efficient way. There are however a string of wider economic, social and environmental benefits which can be achieved through the process in terms of jobs, skills, business development, and reducing the distance travelled by goods. These benefits can often be departmental priorities for teams in local authorities, such as economic development or adult social care, with the commissioning and design of services an opportunity to feed in such priorities, to ensure that service delivery is not only cost efficient but also cost effective. Anchor institutions can also frame their decisions around wider considerations affecting the place.

### **Case Study: Allerdale Borough Council<sup>29</sup>**

Allerdale Borough Council has sought to engage the local business and voluntary and community sector in procurement strategy, by developing a commitment to, or charter for local and sustainable procurement. The commitment, which consists of a straightforward one page table, was consulted upon and outlines the Council's commitment to the consideration of economic, social and environmental wellbeing in the procurement process. It effectively outlines to local business, SMEs, and the voluntary and community sector all the mechanisms which the authority has in place to support them in tendering for contract opportunities. Economic commitments include the requirement for one local organisation to quote for each contract opportunity. Social commitments include training staff across the Council on sustainable procurement. Environmental commitments include incorporating environmental considerations in service selection processes.

### **Reflecting community need**

Anchor institutions can seek to ensure that service design and commissioning is reflective of community need, by engaging and consulting communities upon the design of services. This is emerging in the concept of co-production, where institutions and residents design services collaboratively, and where communities can have responsibility for small elements of budgets. This has been used, for example, in the London Borough of Camden as part of the commissioning process for mental health services.

## **Procurement strategy**

Local authorities and other anchor institutions can enable and maximise economic, social and environmental benefit through the procurement process in the strategy phase. This can include:

### **Developing procurement strategies with a common narrative**

These set out an authority's or organisation's priorities and processes in relation to procurement practice. They are a key means by which priorities and criteria relating to economic, social and environmental wellbeing can be embedded, ensuring that departmental objectives and priorities feed into the decision making process for all contracts. They also highlight to suppliers the types of added value that anchor institutions are expecting them to demonstrate in their response to tenders.

### **Developing accessible portals**

Anchor institutions can develop a range of online activities which raise awareness amongst the local business base, SMEs, and the voluntary and community sector, of upcoming tender opportunities. These can include online portals which provide alerts to relevant contract opportunities and a means of uploading tender documents and guides that explain to small organisations what is expected in the tender process, and how to complete pre-qualification questionnaires (PQQs) and invitation to tenders (ITTs). They can also develop portals specifically for sub-contracting opportunities.

<sup>29</sup> [http://www.opinionsuite.com/cumbria/allerdale-borough-council/corporate-improvement-team-1/draft-council-commitment-to-local-and-sustainable/consult\\_view](http://www.opinionsuite.com/cumbria/allerdale-borough-council/corporate-improvement-team-1/draft-council-commitment-to-local-and-sustainable/consult_view)

### Case Study: Find it in Sandwell<sup>30</sup>

Sandwell Metropolitan Borough Council have developed a localised online platform (Find it in Sandwell) which serves a number of purposes in relation to the procurement process. Firstly, it enables the local authority and other public sector bodies to advertise tender opportunities. Secondly, it provides a host of guidance for interested suppliers about the procurement process and access to networks, 'meet the buyer' events and capacity building. Third, it provides a platform through which local businesses can register information about themselves, including the types of services they might be able to deliver. Fourth, it provides a means through which large contractors can look for suitable local businesses to deliver sub-contracting opportunities and advertise such opportunities. The platform also serves a social purpose, with a list of local unemployed people which contractors may wish to engage with in delivering contracts.

### Packaging contracts to make them more accessible

For contracts which are below the Official Journal of the European Union (OJEU) threshold, anchor institutions can consider breaking contracts down into smaller lots to make them more attractive for local and small business. They can also break them down into more specific lots, which enable different organisations to bid for different aspects of a contract.

### Streamlining PQQ and ITT documentation

One of the biggest barriers preventing local, and particularly small organisations from bidding for contract opportunities is a perception (often fair) that the process is too complex and bureaucratic.

Anchor institutions can overcome this, in line with European legislation and the standardisation of tender documents advocated by the UK Government by:

- standardising PQQs and ITTs;
- providing sample and case study PQQ completion examples;
- simplifying the requirements of PQQs and ITTs;
- streamlining financial assessment criteria;
- removing PQQ requirements altogether for lower value contracts.

### Pre-procurement

Anchor institutions can enable and maximise economic, social and environmental benefit through the procurement process in the pre-procurement phase. This can include:

### Working with local business to test markets

Procurement teams can work with business intelligence officers in economic development and regeneration teams (in local authorities in particular) to identify local businesses, particularly SMEs, who might be suitable to bid for certain contract opportunities. Targeted market testing could be focused on businesses in specific sectors, or based in particular neighbourhoods and wards. Anchor institutions can follow up market testing with targeted capacity building. Anchor institutions can also engage with potential suppliers before formally putting a service out to tender, through holding meetings and events. These enable institutions to detail their specifications in relation to a particular contract, and to inform suppliers of what was expected of them in the tendering process, including any requirements around added value or economic, social and environmental benefit. They also provide the opportunity to informally develop suppliers' skills in tendering.

<sup>30</sup> <http://www.finditinsandwell.co.uk/>

### **Case Study: City of London Corporation<sup>31</sup>**

The City of London Corporation has recognised that a locality represented by wealth and financial services is surrounded by some of the country's poorest communities. They have also recognised that procurement has the ability to stimulate the economies of neighbouring boroughs and foster employment opportunities. The Corporation's local procurement project therefore seeks to encourage competitive procurement from SMEs in the Boroughs immediately adjacent to the City (Tower Hamlets, Hackney, Islington, Camden, Lambeth, Southwark, and Newham). The project consists of three concurrent phases: the first seeks to influence the City of London's procurement officers to include local SMEs in all tendering opportunities; the second seeks to influence the City of London's suppliers to make sub-contracting opportunities available to local SMEs; and the third seeks to encourage multi-nationals based in the City to make sub-contracting opportunities available to local SMEs.

### **Engagement work with business networks**

Anchor institutions can make local businesses, particularly SMEs, aware of procurement opportunities through developing relationships with local Chambers of Commerce and Federation of Small Businesses. These organisations can also provide advice and guidance to their members about bidding for procurement opportunities.

### **Capacity building of SMEs and VCS organisations**

Anchor institutions can provide capacity building support for SMEs and the voluntary and community sector which gives them

the knowledge and skills to bid for contract opportunities. This approach is not about 'shoehorning' local organisations into contracts but about local organisational development. Capacity building could focus upon raising awareness of opportunities, the process of completing a PQQ, or getting a voluntary and community sector organisation tender ready. It could also involve one-to-one tendering support.

### **Case Study: Cookstown District Council<sup>32</sup>**

In direct response to the procurement issues raised by the local SME sector in 2010, Cookstown District Council's Local Economic Development Department applied to the Department of Enterprise, Trade and Investment (DETI) in Northern Ireland, and was successful in accessing 50% match funding from the EU Sustainable Competitiveness Programme to deliver a two year pilot programme of bespoke one-to-one tendering support to SMEs. The pilot 'Multi-Sectoral Tendering Programme' sought to build the capacity of up to 80 SMEs from the Cookstown District from the sectors of construction, engineering, manufacturing and business services, to identify tender opportunities in the public and private sector, and prepare and submit professional tender bids. The key outcomes of the programme to date have included 20 businesses being assisted to submit tender bids, of which 10 have been successful in accessing new work valued at £5.3 million. This has also contributed to the creation of 25 new jobs.

### **Apprenticeships, labour and social clauses**

Anchor institutions can enable benefit by stipulating in tender documentation, the requirement for contractors to add value for communities beyond service delivery. In capital focused projects, this could include a requirement to create

31 <http://www.cityoflondon.gov.uk/business/tenders-and-procurement/responsible-procurement/local-procurement/Pages/default.aspx>

32 [http://www.cookstown.gov.uk/development/latestnews/name\\_6284\\_en.htm](http://www.cookstown.gov.uk/development/latestnews/name_6284_en.htm)

apprenticeships for every £1 million spent, or a desire to create jobs for those who are unemployed. In more revenue focused services, it could include wider social benefits such as community work. Such stipulations or clauses form part of the contract management for the service.

## Delivery

Anchor institutions can enable and maximise economic, social and environmental benefit through the procurement process in the delivery stage. This can include:

### Developing suppliers networks

Anchor institutions can enable benefit, and continuously ensure that wider economic, social and environmental benefit is considered in service delivery, through setting up supplier networks. Supplier networks ensure a continuous relationship between buyer and supplier. Historically, goods and services have gone out to tender and suppliers have gone away and delivered the required service. A supplier network enables authorities to voluntarily influence the behaviour of suppliers by informing them of corporate priorities, and wider expectations around economic, social and environmental benefit. Supplier networks also enable suppliers to challenge the bureaucracy of the procurement process.

### Paying suppliers quickly

One of the biggest complaints of the supply chain, particularly SMEs, in relation to public procurement and delivering public contracts, is the time it takes for suppliers to get paid. Authorities can address this barrier through the introduction of schemes such as payment cards or through commitments to pay invoices within a certain timeframe (such as 14 days).

## Continuous spend analysis and outcomes monitoring

Anchor institutions can continuously seek to identify the impact their procurement spend brings for their locality through spend analysis and contract monitoring. Through postcode analysis, they can identify the extent to which spend is with suppliers based in, or with a branch in their local authority boundary; and spend within particular wards and areas of deprivation. Through contract monitoring, institutions can identify the extent to which suppliers re-spend in the local economy upon local suppliers and employees of their own; and additionally the extent to which they are adding value to wider local priorities and outcomes.

### Case Study: Manchester City Council<sup>33</sup>

Manchester City Council has sought to further understand the impact of its annual £900 million procurement spend on its local economy, by extending spend analysis to explore spend by ward and deprivation area. This has enabled the Council to understand which suppliers are based in particular localities, and importantly target them to seek to influence their own employment, supply chain, and environmental practices. In 2011, spend analysis identified that over £60 million was being spent with suppliers based in a specific deprived ward. Through more effective relationships and influence, it was felt that spend could be further sweated and be beneficial in economic and social terms.

To supplement analysis of tier 1 spend, Manchester City Council also sought to understand the extent to which suppliers re-spend back in the Manchester economy upon local employees and local suppliers of their own; with further targeted engagement based upon the data. As part of contract management, Manchester City Council has also developed a local outcomes framework. This seeks to consistently monitor the extent to which suppliers are contributing towards fifteen defined outcome indicators, including local re-spend, job and apprenticeship creation, and local supply chain development.

# NEXT STEPS

A lot of activity has been undertaken in Preston over the course of the last 18 months in relation to anchor institutions. The key emphasis has been upon shifting behaviour within institutions so that they maximise the benefit their procurement spend brings for the Preston and Lancashire economies. As evidenced in this paper this is beginning to bear dividend across the anchor institutions. The remaining gap and longer term activity is, however around community wealth. There are a host of other things which anchor institutions can, and should be doing, including cooperative development which can enable a good local economy.

The final section of this paper therefore does two things. First, it identifies what the anchor institutions can continue to do to maximise benefit through procurement, drawing upon the above mechanisms and the first discussions of the procurement working group. Second, it identifies the other activities which anchor institutions in Preston and elsewhere could undertake to enable a good local economy.

## Maximising benefit

The anchor institutions felt that there were a range of ways in which they could continuously enable and maximise benefit through procurement. These included:

- Link procurement decisions to the priorities of the local authorities of Preston City Council and Lancashire County Council, where appropriate;
- Engage communities and users in the design of public services, where appropriate;
- Signpost businesses and voluntary and community sector organisations to the various Portals which exist in Lancashire to raise awareness of opportunities;

- Maintain a continuous dialogue with core contractors, and seek to influence their behaviour around supply chain and recruitment practice;
- Advise purchasers of below threshold opportunities in their own organisation where it is appropriate to utilise local suppliers;
- Identify suitable organisations across Preston/ Lancashire which can potentially provide goods and services, and make them aware of potential opportunities;
- Promote the value of packaging contracts and share examples of practice;
- Organise regular meet the buyer events across a range of services;
- Scope the services where there is potential for cooperative development and delivery, and explore across anchor institutions the appetite for such delivery;
- Have an open dialogue with potential suppliers and existing suppliers to maximise benefit through the delivery of activities including apprenticeships, for example.

## Enabling a good local economy

There are a number of other activities which Preston City Council and anchor institutions in Preston could do to enable a good local economy. These can be framed as follows:

### Local financial enabling

- Support alternative banking mechanisms, including local credit unions; encourage service users to utilise these institutions to encourage greater circulation in the local economy;

- Use local pension and other investment funds to invest in local economic development activities and scope the potential for collaborative development opportunities;
- Explore the potential of local currencies as a means of circulating resource in a local economy and shaping investments across supply chains;
- Promote the use of community land trusts as a means of bringing empty assets and other facilities back into use;
- Promote the Living Wage across all providers of services and businesses and encourage its use.

## Local ownership enabling

- Explore across the anchor institutions areas of service activity and goods which would lend themselves to delivery by worker led cooperatives. Attract grant funding to develop and work with these cooperatives and institutions to upskill and potentially access procurement opportunities in the future;
- Join up employment support provision and the skills agenda to the current and future labour market demands of the anchor institutions;
- Promote community-based development through crowdfunding type initiatives;
- Develop locally owned and controlled energy schemes to provide affordable energy, not only for residents, but also for anchor institutions.

## A final thought

Creating a good economy and an alternative approach to local economic development takes time. It requires foresight, a willingness to address the prevailing orthodoxy of the approach to economic development, and political leadership. It also needs insight from organisations such as CLES, which have experience of influencing the behaviour of economic development practitioners to progress the interventions they undertake at a local level. CLES is continuously engaging with organisations wanting to achieve a double dividend through growth and devolution, wanting to collaborate across the public, commercial and social economies, and wanting to maximise the benefit their spend brings to local economies.

In this paper we have outlined a means to which an alternative approach can be developed through anchor institutions; these are integral to good local economies and have a key role to play in the future economic destinies of the places in which they are based. However, the principles identified in this paper go far beyond anchor institutions in Preston.

The sweating of existing internal resource through commissioning and procurement is important. But acceleration of a good local economy, is also about wider democratisation of the economy, with new forms of financial enabling, wealth ownership and creation.

Vehicles tasked with local economic growth including Local Enterprise Partnerships, must accelerate the ideas presented in this paper. Places need to take more control of their local economic destinies and ensure that decision making is framed within a good local economy.



Express Networks,  
1 George Leigh Street,  
Manchester  
M4 5DL

tel: 0161 236 7036

fax: 0161 236 1891

[info@cles.org.uk](mailto:info@cles.org.uk)

[www.cles.org.uk](http://www.cles.org.uk)

CLEES is a registered charity no. 1089503.

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VAT no. 451 4033 86.