

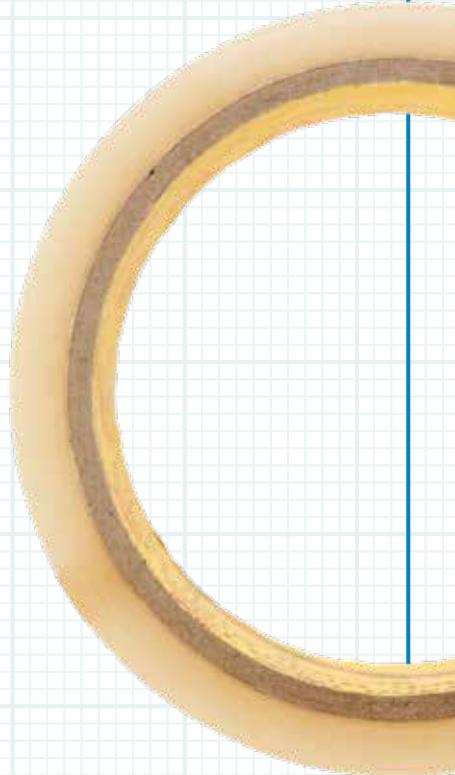
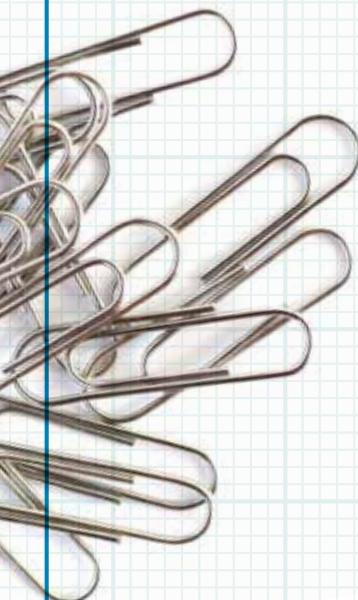


power
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business in
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Neighbourhood economic models



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Foreword

Inequality and community businesses

At the end of 2016, the Bank of England's Chief Economist warned that regional inequality was 'among the most important issues that we face today as a country'. Then as now, local economies in different parts of the UK were growing at an uneven rate, and some were simply not growing at all.

Here at Power to Change we want to understand the way this regional imbalance might be addressed by community businesses, businesses which are rooted in their local area, answerable to the community they serve, and which re-invest trading profits back into their neighbourhood. Can hyper-local, socially-responsible businesses help the economic performance of the place where they are based?

As part of this work, this paper specifically asks which factors are associated with growth in the sort of start-up, entrepreneurial businesses which can power a local economy.

Findings

This paper draws on a review of nearly 40 pieces of published research, interviews with 10 experts on local economics, and our own original statistical analysis of 119 local authorities in England. It found that start-up rates are higher than average in local areas where:

- Recent immigration, both from inside and outside the EU, is higher
- Income and education standards among residents are higher
- Levels of trust within a community – so-called 'social capital' – is higher, even where income is relatively low

This suggests that local economies are influenced by social class mix, migration, and social capital, in ways that address inequalities by generating employment and opportunity where there is too little of both.

The research outlines how effective, targeted support by intermediaries could help to turn start ups into viable, long-term businesses, which could begin to tackle regional inequality at greater scale.

The paper also tracks some of the factors which have changed people's understanding of the local places in which they live.

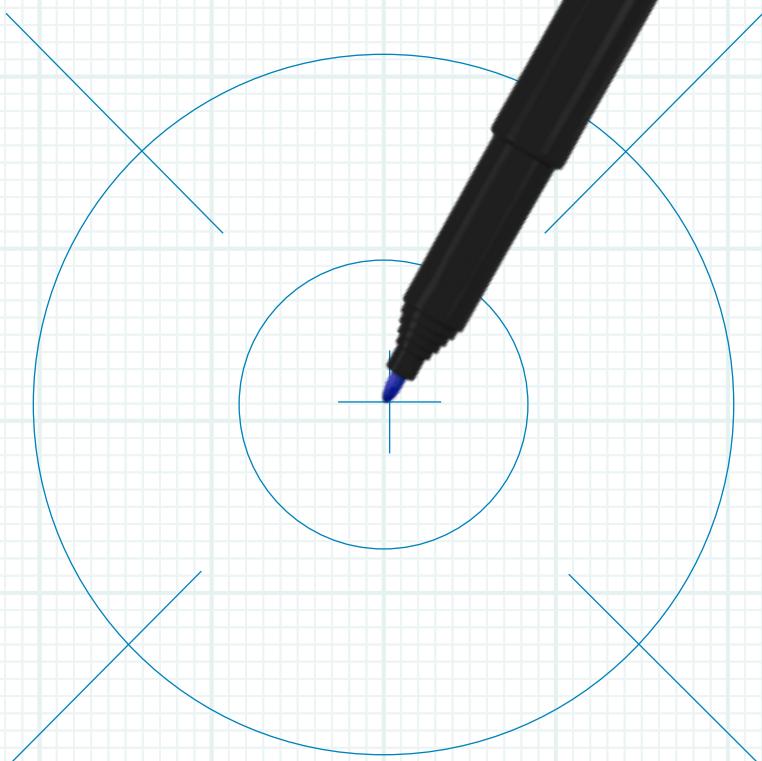
Average commuting distances show that lower earners are much more likely to work close to home in short term, unreliable jobs, whereas higher earners travel further to work. This could serve as a useful 'diagnostic' of areas that are in need of targeted investment for local businesses. The workforce is there, but the provision of good jobs is not. This touches on a key finding of the Taylor Report, which highlighted not only the availability of employment, but its quality, and the need for routes to progress within a career. Low skill work close to home is less likely to offer these attributes.

The impact of devolution of more power to a local level, through councils and elected metro mayors, is yet to be fully assessed, but the need, and the scope, for robust intermediary action to strengthen fledgling business is clear.

This is an analysis of start up rates. More work needs to be done to look at survival rates amongst new businesses, and to better understand their profitability, and we are working on doing both these things. But with this research, we have a greater understanding of the set of factors that influences entrepreneurship. This will support further research, but already provides a strong steer for Power to Change to invest in targeted and evidence-informed local programmes that support community businesses as a key part of the solution to tackling regional inequality.

→ **Genevieve Maitland Hudson**

Head of Evaluation and Impact Assessment
Power to Change



Executive Summary

This report collates and reviews literature, stakeholder advice, and data sources on local economic markets. Our framework for analysis considers four different roles – businesses, consumers of goods and services, workers and entrepreneurs, and intermediaries. It also examines the role of trust and social capital in supporting effective economic markets.

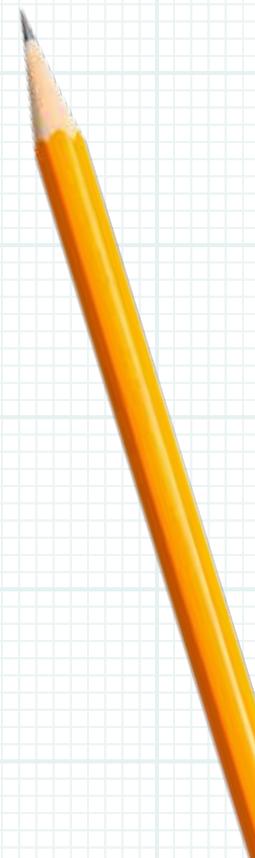
In doing so, it should be noted that there is no strict definition of what constitutes a local area, but for the purposes of this report we have tended to relate to local authority and ward (neighbourhood) levels. It should further be noted that local economic-activity boundaries are not fixed and static. They change over time (commuting has become markedly more extensive in England since 1991), and differ for different groups of people - those from lower social classes tend to connect to a more focussed area than middle class counterparts.

Survey results suggest two prominent approaches to local markets taken by businesses – one with a high local orientation, versus one with a much more national orientation. Some combination of the two is possible (Asda, for instance, aims to strengthen the social fabric of localities, with liaison staff actively supporting local causes), but far from mainstream.

Turning to the ways that local populations can enhance and support their local economies, the most obvious routes are through neighbourhoods that attract high-income, highly educated residents; or neighbourhoods that attract immigrants with a strong entrepreneurial ethos. However, there is also some evidence of a third category, comprising areas that are close-knit, relatively low-income communities with a distinct cultural ethos. Such areas have at least the potential to create the social capital that often provides vital support to start-ups.

This in turn points to the role played by intermediaries. These range from the public sector and third sector (trusts and foundations with an interest in economic development and community regeneration), to friends, family and peer group networks. Reports on social entrepreneurship point to the role of networks varying from physical assistance, such as free office space, to advice on product ideas and business planning.

The previous two paragraphs point to local economies being influenced by social class mix; migration; and social capital in a form that addresses inequalities. Preliminary statistical analysis on start-up rates per 1,000 population per local authority area suggest that all three factors do have a bearing, though further work is recommended to review this.

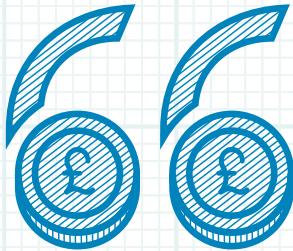


In terms of potential cohort to support, local authority units have attractions, as they are understandable and tend to attract a sense of identity. However, they run the risk of some inflexibility (for instance, an important sectoral cluster may cut across boundaries).

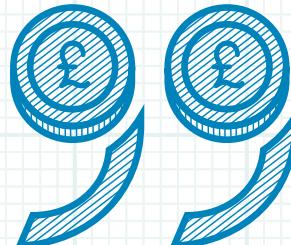
Housing and transport-to-work areas may point to a wider definition, though it could also be useful to undertake a cross-check on cultural identity by such means as examining the audience for local newspapers.

With respect to ensuring that support makes a practical difference to social enterprises, a key issue is what other schemes are currently in place, particularly for those areas that do not benefit from a prosperous social class mix.

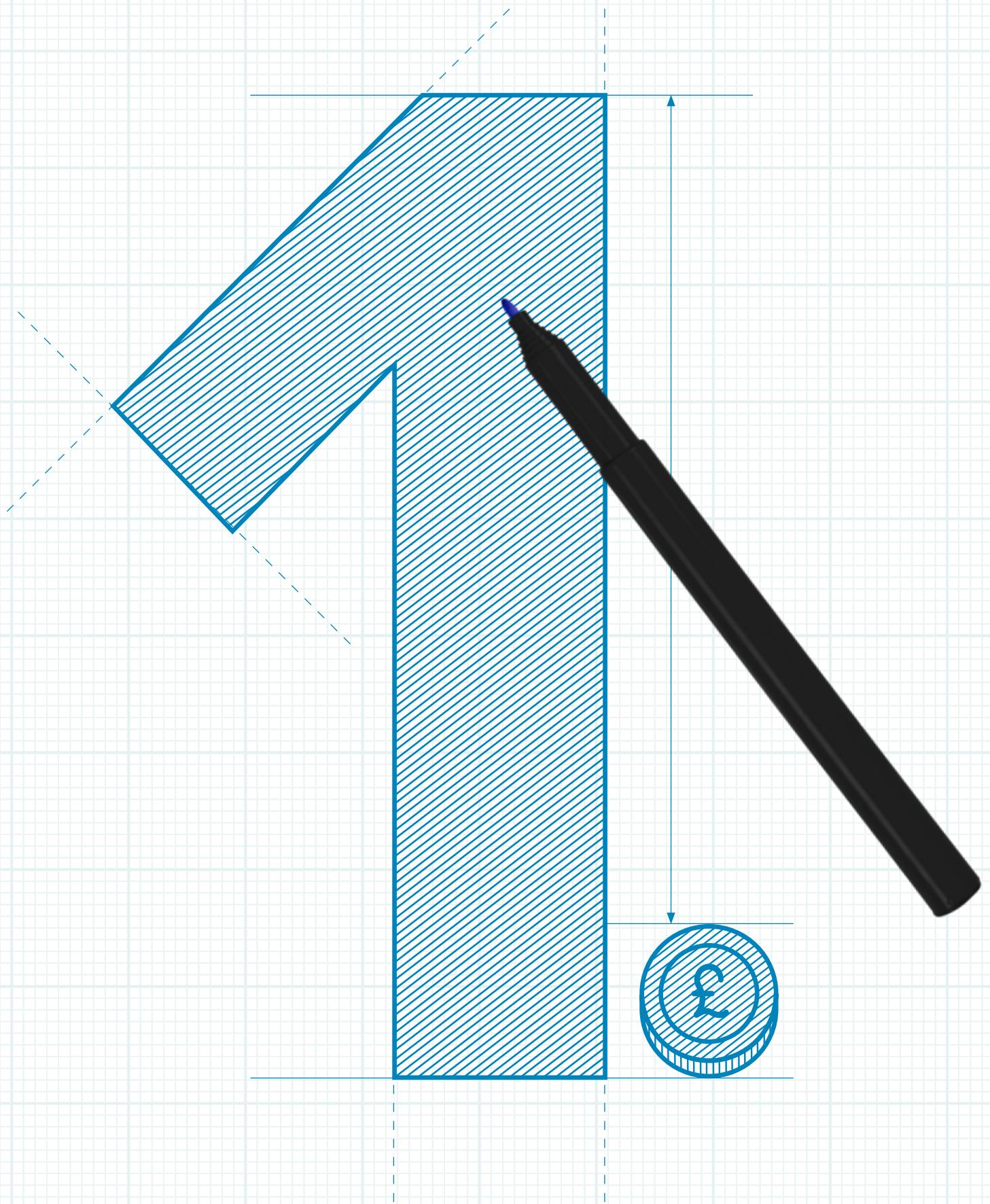
Lastly, in relation to activities of support, sector networks; peer support; and community support networks can also play important roles. This suggests a useful role for peer-to-peer support with a shared local perspective, allied to an ability to network with a wider group as and when specific technical expertise is required.



Our framework for analysis considers four different roles – businesses, consumers of goods and services, workers and entrepreneurs, and intermediaries. It also examines the role of trust and social capital in supporting effective economic markets.



1. Introduction



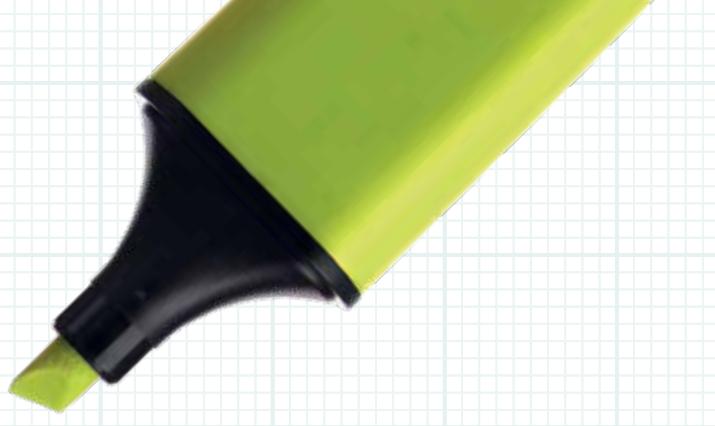
As Cox et al (2013) points out, “neighbourhoods matter”, shaping our identity and relationships with others.

In turn, businesses have much scope to shape local communities for the better. Dunford et al (2006) argues that “any true investment strategy” must call on “the ability to engage and appeal to the private sector through their core business areas, alongside their community affairs or CSR units.” Imrie and Wilkes-Heeg (1996) emphasise that businesses “are social organisations with rights and moral obligations to communities and localities”. Norberg-Hodge and Henriques (1998) calls for “economic localisation” through such means as procurement strategies and support for local currencies and community banks.

However, conceptual obstacles occur because the right way to view the “local” dimension varies according to context, while practical obstacles are strong because data on socially responsible behaviour by businesses is rarely publicly available or consistent.

The first aim of this project is to collate and review conceptual thinking on the “local” perspective in economic contexts, with a view to advising on useful lessons for Power to Change as it advances its thinking on models for targeted funding.

The second aim is to collate and review data sources on the “local” perspective in economic contexts, with a view to advising on useful lessons for Power to Change as it looks to generate suitable benchmarks on performance.



This report draws on:

- A literature review based on a database search for academic papers and grey literature at the British Library (see Annex 1 for more details).
- Interviews with relevant organisations – Big Lottery Fund; Bristol Pound; Business in the Community; Community Catalysts; Joseph Rowntree Foundation; Local Trust; London School of Economics; Royal Society of Arts; and Social Enterprise UK (for key points see Annex 2).
- A preliminary statistical analysis of factors influencing the extent of entrepreneurship activity at local authority level.

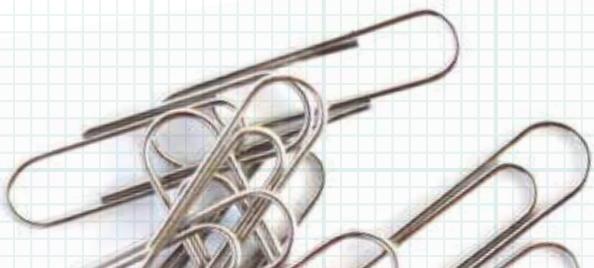
Although it examines a wider set of organisations than those that meet the four criteria of community businesses¹, it maintains a focus on lessons applicable to the narrower group.

In the remainder of this report:

- Section 2 examines roles played in the local economy;
- Section 3 considers identification of what is meant by a local economy;
- Section 4 looks at success factors for social businesses within local areas;
- Section 5 reviews shifting patterns of support for local economies;
- Section 6 identifies lessons for positive action to support local economies; and
- Section 7 sets out conclusions.

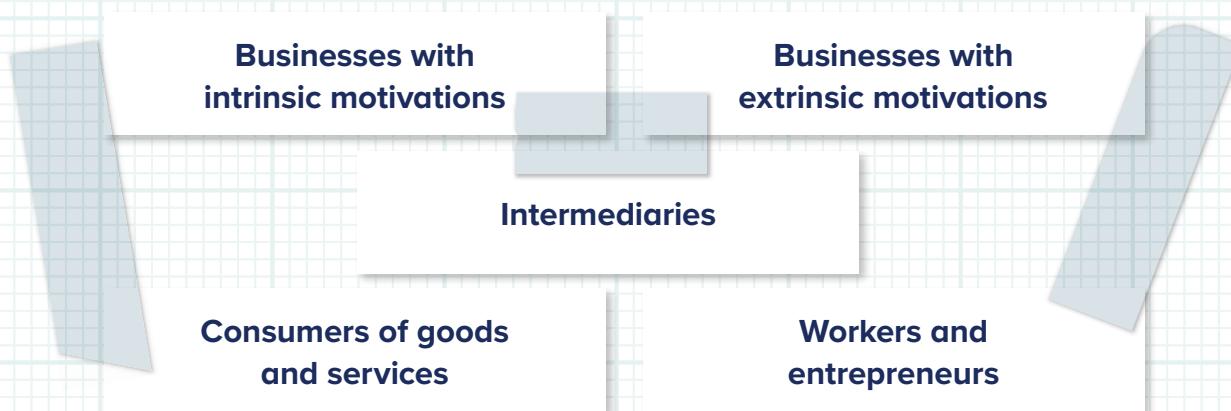
¹That is, locally rooted; trading for the benefit of the local community; accountable to the local community; and achieving broad community impact. For more details see www.thepowertochange.org.uk/what-is-community-business - accessed March 2017

2. Roles played in the local economy



Our framework for analysis sees roles in the local economy played by:

- businesses that may have either “intrinsic” or “extrinsic” motivations for acting in a manner that is pro-social for the local area;
- citizens in a local area, who act as consumers of goods and services for companies in the area, and potentially also as workers and entrepreneurs based in the area;
- intermediaries who support and regulate local economic activity. These include both central and local government, and civic society organisations such as local Chambers of Commerce.



Such activity takes place within a wider context, in which issues of trust and social capital are also important.

A rationale for making a distinction between motivations for businesses can be seen in a 2008 study for the then Department for Business, Enterprise and Regulatory Reform (BERR) which found evidence for two main groups, one with behaviours that were strongly “local” amongst their sales and/or supplies, and one with little interaction with their vicinity.

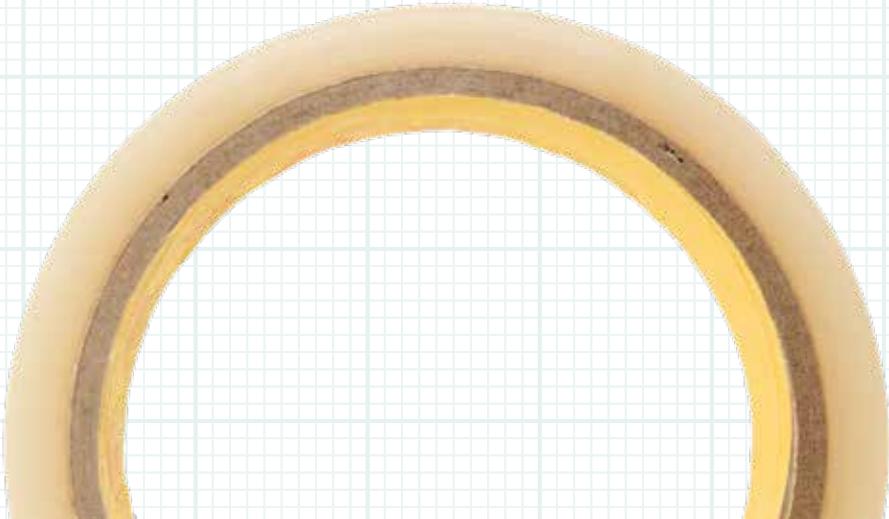
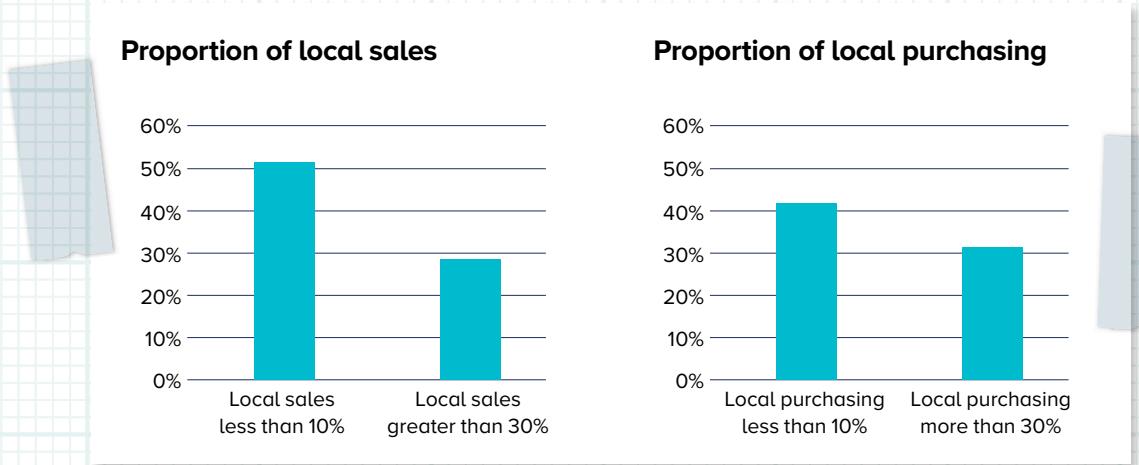


Figure 2.1 Proportions of local sales and local purchasing among enterprises



Source: Hart et al (2008), tables 4.12 and 4.15

Much of this behaviour is driven by small and medium sized companies. A survey of such firms based in South West England (Saad et al, 2011), for instance, found that around 40% of their supply base was centred on other companies in the south west.

For those with intrinsic motivations to support local areas, such behaviour is seen as the “right thing to do”. As Handy (1998) puts it: “Propinquity reminds us of our proper priorities. If the ultimate purpose of business is to help build a more prosperous and better world then it should start at its own doorstep”.

Those involved in community businesses or social enterprise have a tendency towards strong intrinsic motivations. UnLtd (2008) reveals that a key motivator to many early start social entrepreneurs is that they personally witness tangible local impacts on the lives of clients or local landscape. Delta Economics (2010) in a survey found that “Nearly half of entrepreneurs said that creating jobs or making a difference socially or environmentally was a primary driver for setting up their venture, many more than official estimates”.

Similarly, 64% of social enterprise respondents to a national survey (Social Enterprise 2015, p37) felt that a key objective was “improving a particular community”; and for 16%, people disadvantaged in the labour market formed at least half of all employees.

Yet although such motivation is widespread, it is also relatively limited. “Mission-led businesses cover a wide range of industries, sizes and social / environmental focuses. The research suggests that they ... account for 4.3% of turnover in the UK private sector” (Deloitte 2016).

A more frequent route to pro-social activity is extrinsic motivations – supporting “local” as an approach to ultimate goals. PWC (2016), for instance, recommends that businesses support “good growth” for cities by engaging at strategic level



on physical infrastructure; by making closer connections to the skills system; and providing support for local wellbeing.

Taking a more direct route, B&Q has long been a pioneer in promoting employment among older workers, and Neumark et al (2016) finds that this role is often highly appreciated - “We asked customers how B&Q benefits the local community. The most common response was ‘jobs’”.

Perhaps combining intrinsic and extrinsic motivations, Asda sees a role in strengthening the social fabric of localities, supporting Community Life Champions in assistance for causes such as nursing homes, sports clubs and charities – subject to a boundary of a ½ mile radius from the store (Schifferes et al, 2014). And Dellots et al (2014) highlights a national network that acts on a neighbourhood level² - “85 percent of Sub-postmasters look out for vulnerable customers on a regular basis, the majority seeing their role as helping to prevent people from feeling isolated. Indeed, other studies have shown that Sub-postmasters in disadvantaged areas are keeping an eye on between 20 and 50 people at a time”.

However, there is, in general, much mistrust of larger companies. According to a Ipsos MORI report on attitudes to big businesses reported in Interserve (2015), 80% of respondents could not think of a single company that contributed positively to their community.

Consumers and workers

In theory, a locality can inspire its citizens as a place to socialize, work, and buy goods and services. “According to buy-local proponents, supporting a vibrant, walkable downtown preserves meeting places for community interaction, and local firms help establish and maintain the individual character of a community” (McCaffrey and Kurland 2015).

We can identify three ways in which this has occurred in practice.

- (i) Neighbourhoods “that have experienced an inflow of high-income, highly educated residents, creating a local demand for high-end products as well as creating a supply of local entrepreneurship” (Folmer, 2013)
- (ii) Neighbourhoods “with a high percentage of Non-Western immigrants that accommodate a considerable share of starting entrepreneurs, fomenting local ethnic economies” (Folmer, 2013);
- (iii) Areas that are close-knit, relatively low income communities with a distinct cultural ethos (Kim et al, 2016).

²93% of the population live within one mile, and 99.7% live within three miles of a post office (House of Commons briefing paper, 2016, Post Office Numbers).

Byrne et al (2015) disentangles relevant effects - physical closeness, emotional connection, and alignment of mind-sets. Byrne et al argue that physical closeness is often an important driver of emotional connection which in turn can underpin alignment of mind-sets.

The potential for success in areas of type (i) is perhaps not surprising. Vollmer (2013) found that, in general, GDP per capita is positively associated with social enterprises' growth, although it is not a decisive factor for the development of social impact. It should, however, be noted that success in areas of type (i) may "provide few returns to more vulnerable community members" (McCaffrey and Kurland 2015).

An interesting comparison occurs with an analysis of a neighbourhood that combines characteristics of type (ii) and type (iii) in UnLtd (2008). This identifies social entrepreneurs in New Cross Gate, who "benefited from a generally positive reception to their work amongst local residents who in unanticipated ways were ready to provide encouragement and practical support."

Similar network effects are seen in Teasdale (2008), which describes case studies of social enterprises with a high emphasis on social impact, that promoted "strong bonds" between clients "based on solidarity arising from their shared ethnicity or mental health status".

Teasdale (2008) also provides pointers towards explaining the prominence of type (ii) areas. In describing instances of study subjects who "escaped exclusion through social enterprise", it depicts them as being "on the margins of the (ethnic) groups they represented", who "had been university educated in their country of origin". This indicates the potential for change among a group with talent, determination and knowledge, but finding opportunity scarce.

Intermediaries

Intermediaries that act to support local businesses can potentially come from:

- the public sector;
- the civic sector;
- the third sector (trusts and foundations with an interest in economic development and community regeneration); and
- networks of friends and family.

We consider a range of such intermediaries, in order of scale (from small to large).

UnLtd (2008) reports that many social entrepreneurs “talked about the importance of having the practical support of friends and family” from action to “physically help them carry out their project” to “acting as a sounding board to discuss and workshop ideas and plans.”

Similarly, analysis of SELUSI data in Vollmer (2013) - a survey of 546 social ventures which are located across the EU - indicates “social enterprises heavily depend on collaborative resources in their daily business, primarily on informal ones (family, friends, intimates).

In the case of social entrepreneurs in a socially deprived area of London, New Cross Gate, UnLtd (2008) reports a high proportion of the projects established (63% of those surveyed) were “running projects aiming at building community cohesion”, which encouraged a process of “give and take” with the community, that was built upon by “using methods which foster further intergroup exchange and collaboration”.

Wards have previously been used as units of local support, most notably during the 1990s and early 2000s. For example, the Neighbourhood Management Pathfinders were “small ‘walkable’ neighbourhoods”³, while the Neighbourhood Renewal Fund was a targeted grant to Local Strategic Partnerships (collaboration arrangements formerly in place for local public services) that could be spent in any way to tackle deprivation in deprived neighbourhoods.

A similar approach is taken by the “Big Local” scheme. Funded by the Big Lottery Fund (via Local Trust), this supports residents in 150 areas around England (average population of 6,000 - range from 1,000 to 20,000) to use at least £1m each to revitalise their communities, by harnessing local talent and energy from individuals, groups and organisations.

³SQW (2008) Neighbourhood Management Pathfinders: Final Evaluation Report, p22

Moving up in scale, Local Authorities are the formal institutional level for “thinking local”. They are far more homogenous in scale than housing markets and employment markets, which are dominated by Greater London. They play a role in both regulation and procurement, and as such are regarded as “anchor institutions” by CLES (2017a).

Local Chambers of Commerce are voluntary, peer group forms of business support. There are 43 “upper tier” Chambers in England, with a membership varying from 350 or so in South Cheshire, to 9000 in London⁴, and overall membership of 104,000 (Heseltine 2012). Major cities such as Greater Manchester in turn have several local groups. Scale tends to be part-way between local authority areas and local housing and employment markets.

Housing Market Pathfinders were introduced in the early 2000s, and in line with housing market areas generally covered more than one local authority boundary. The areas on average contained about 90,000 properties with a population of over 200,000 people. This contrasted strongly with the more neighbourhood-based focus of other regeneration initiatives (Leather et al, 2009). Their activity was, however, an object of media critique, and attacks on their legitimacy are probably one factor that led to their closure.

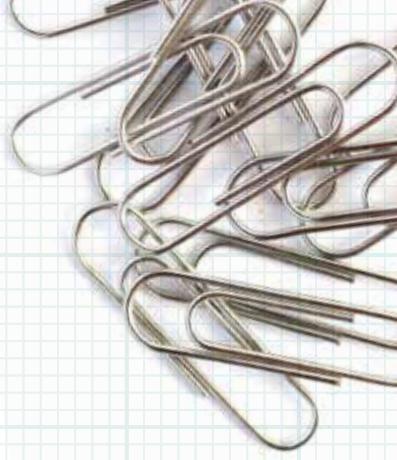
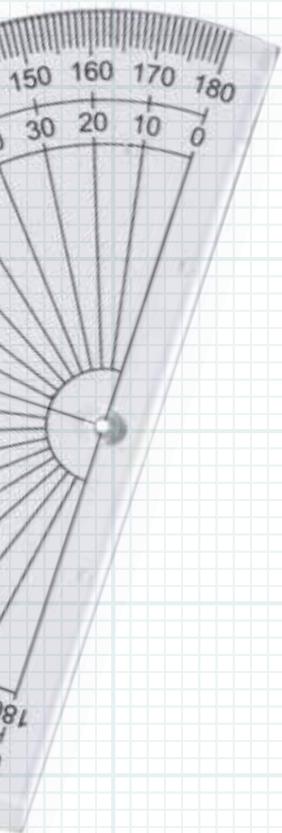
Local Enterprise Partnerships (LEPs) were introduced during the 2010-2015 administration, and show relative consistency in their size, generally combining many local authority areas⁵. The scale reflects both the tendency for economic markets to span large areas, and national politics (regional governance was mistrusted, and therefore dismantled, by the 2010 to 2015 UK government). A difficulty faced by LEPs, however, is that council representatives can be uncomfortable with actions for which they are accountable, but lack levers to ensure they have power and responsibility.

Trust and social capital – preliminary statistical analysis

Some pointers towards the three types of neighbourhoods identified above can be gained from an overview of findings into social capital. An initial finding is that social trust is positively related to social enterprises’ employment growth, revenue growth as well as social impact development (Vollmer 2013) – a finding that is very much in line with broader analysis of general economic growth and trust (Knack 2000).

⁴We examined 22 Chambers with data from websites or reported in Heseltine (2012)

⁵Areas where there is a distinguishable pattern to housing demand, as seen from migration patterns and/or house price relationships. Definitions of such areas inform local and national planning policy.



Social enterprises in prosperous areas geared towards well off clients have an advantage, partly due to prosperous markets, and partly from an ability to draw on a deeper level of social capital – people in higher managerial occupations are much more likely to trust people in their neighbourhood (73%) than those in routine occupations (54%) (Siegler 2016). The same source shows that people are less likely to be attached to deprived areas than more affluent areas, due to weaker social networks and fears for neighbourhood safety.

A key question is the relative strength of these three major factors - trust/social capital, migration, and social class - in influencing the prosperity of social enterprises.

We use the technique known as ‘regression analysis’ (Gelman and Hill, 2007) to assess the extent to which improvements in the first three aspects drive improvements in prosperity for social enterprises. Our analysis is conducted at the level of local authority areas in England, for which we have been able to collate relevant data in 119 cases.

Below we discuss the four measures that we have used to assess prosperity for social enterprises, and the three aspects that potentially drive such prosperity.

- (a) start-up rates per 1,000 population, from Start Up Britain (<http://startupbritain.org/startup-tracker/>), which, in our sample, range from 52 per 1,000 population in Islington, to 4 per 1,000 population in the Isle of Wight;
- (b) entry into higher education among those receiving free school meals (www.gov.uk/government/statistics/widening-participation-in-higher-education-2016), chosen as an indicator of the ability to support those from socially deprived backgrounds;
- (c) international long-term migration rates (ONS migration indicators tool), a figure that counts those arriving in the UK for at least one year, and which includes EU citizens; and
- (d) proportions of the working population who are managers, directors, or professionals (occupation data, table KS608EW, 2011 Census).

We have taken the natural logarithm of these data, and then applied statistical analysis. The use of natural logarithms reduces the influence of any extreme values in the data. The output of the analysis includes:

- the relative importance of each factor (the regression coefficient);
- the level of variability (the standard error) of that estimate of relative importance;
- the t-statistic (a statistic on the size of the effect relative to its uncertainty); and the p-value (probability value). If the associated p-value is small (typically less than 0.05), this is taken to indicate a ‘statistically significant result’ which follows if the t-statistic is at a level of +/- 1.96 or above.



Table 2.1 below shows the results of the statistical analysis.

	Coefficients	Standard Error	t Stat	P-Value
Intercept	4.815	0.22	22.29	<0.00
ln (HE (FSM) %)	0.319	0.07	4.33	<0.00
ln (% migration)	0.208	0.04	4.67	<0.00
ln (% managers or professionals)	0.789	0.16	4.86	<0.00

It can be seen that the P-values are smaller than the threshold value of 0.05 for each of the three variables. This indicates that we have enough data to detect a statistical relationship between the natural logarithm of start-up rates and (a) social capital (as represented by Higher Education for those receiving free school meals); (b) migration; and (c) social class.

A standard calculation of goodness of fit of the model is known as the R^2 statistic⁶. We calculate an R^2 for this model of 0.59, and an adjusted R^2 of 0.58. These suggest a reasonable, though far from perfect, explanation of the factors driving levels of entrepreneurship.

Another standard measure of fit is to look at the pattern of leftover variation after the model has been fitted. This is known as residual analysis. Applied to this model we observe a mostly good fit, with three exceptions (Warrington, Wiltshire and Poole doing better than expected).

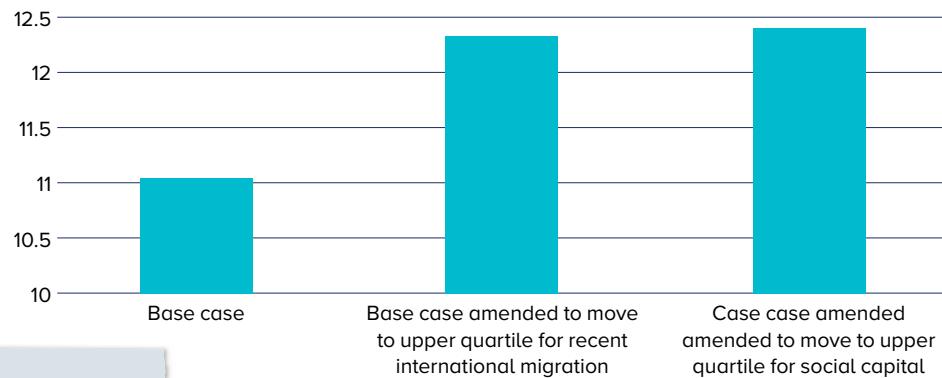
Applying the coefficients in table 2.1 to average scores in the samples, we can interpret these results and check the effects of varying the drivers of entrepreneurship, as shown below:

- Base case (23% of young people receiving free school meals move on to higher education, recent migration amounts to 1.3% of total population, and 28% of the working population are managers or professionals);
- Base case amended to move to upper quartile of young people receiving free school meals who move on to higher education;
- Base case amended to move to upper quartile of proportion of recent international migration levels.

⁶This value ranges from 1 for a perfect positive linear relationship to a score of 0 which indicates no clear linear relationship is observed. The adjusted R^2 value reduces the R^2 value by penalising more complex models with increased numbers of coefficients.

The results, which show best estimates, are shown in figure 2.2 below, and calculations are set out in Annex 3.

Start-up rates per 1,000 people



It should be noted that, as with any statistical estimate the true values may well be higher or lower than the best estimate. To illustrate the level of uncertainty, we have conducted a Bayesian analysis and shown results in Annex 4.

Nonetheless, the differences between the three scenarios are substantial. This indicates that both the ability to promote equitable outcomes in a locality, and the energy and expertise of recent migrants, are both effective factors in promoting entrepreneurship within that area.

We have examined a number of different transformations of the data, to review the suitability of the model. For further details see Annex 5.

3. Identification of the local economy



Having considered what takes place within a given local economy, we turn to the question of what marks the boundary of a local economy.

Unfortunately, answers to this question are not straight-forward. Dellots et al (2014) argues that “There is no strict definition of what constitutes a local area, just as there is no common understanding of what a ‘neighbourhood’ or ‘place’ is.” DCLG (2010) concurs, contending that the “pattern of economic flows can be different depending on which local markets are being considered”, and noting that the most useful such perspectives relate to commuting data, housing markets; supply chains in industry and commerce; and service markets for consumers.

While Dellots et al (2014) provides a view of the local that is “anything from a rural village to a cluster of neighbourhoods in a town suburb”, the view of the “local” for a Whitehall policy administrator tends to be on a bigger scale. DCLG (2010) sees the (then) 149 Travel-to-Work Areas (TTWA) in England as the “standard” unit for local economies, since they reflect the areas where people generally tend to live and work⁷. TTWA analysis was, for example, used in the processes to choose which cities would receive new powers and funding through City Deals, and in distributing the 2010-2015 Regional Growth Fund.

The figure below showcases, in a schematic way, the scale of different activities.

Figure 3.1 Schematic view of scale of different perspectives on local markets



⁷The usual criteria are that: (a) at least three-quarters of residents who are economically active work in the area, and (b) at least three-quarters of those working in the area are living in the area

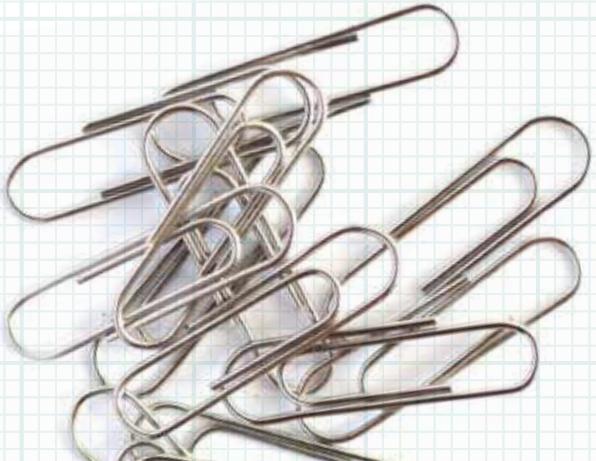


Figure 3.2 below shows the number of groups in England and the average number of people within those groups.



There is a substantial shift in scale between the organisations with responsibility for local economic policies (Local Enterprise Partnerships) through to those that set local procurement policies (Local Authorities). However, as figure 3.1 indicated, there are many forms of economic activity that are undertaken at tighter scales.

The operation of local currency schemes tells us much about conditions for close cohesiveness. Fare and Ahmed (2014) contend that such arrangements require relationships "... guided by the values of solidarity, reciprocity, proximity and mutual aid". Looking at a sample of 9 local areas (drawing on Fare and Ahmed, 2014), we observe schemes taking hold in relatively small areas – from Redange in Luxembourg (population of 1,000) to Bristol and the German region of Rosenheim-Traunstein (population 400,000).

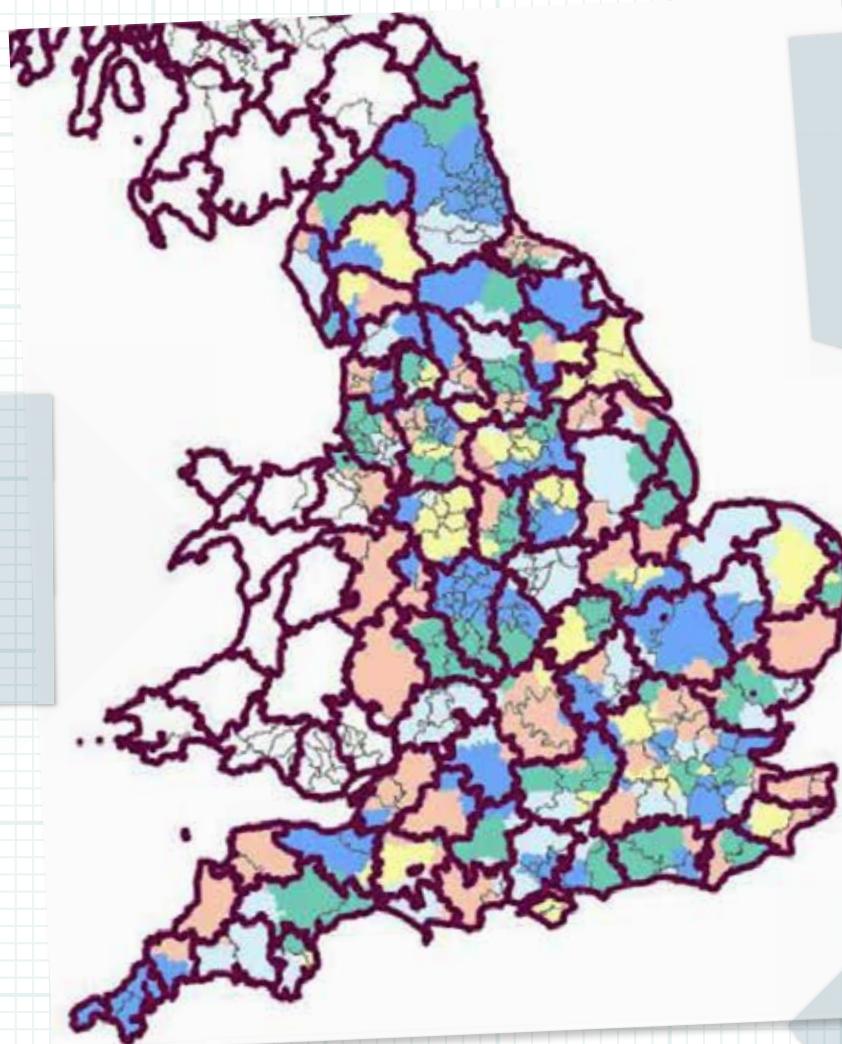
Proximity plays a key part. Blanc and Fare (2016) identifies that "Even when ... formal participatory schemes for selecting providers are established, proximities appear as the keystone of selection and trust". An emphasis on cultural identity also means that there can be self-imposed limits to structures. Fare and Ahmed (2014) note that "unlike the Common Currency Schemes that have economic objectives, those that have social aims do not necessarily seek to expand their scale of application".

Scale and boundaries

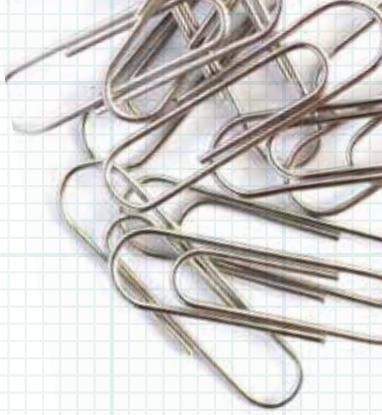
Two major definitions of local economies – local authorities (filled in colour and marked with grey) and local housing markets (outlined in purple) are shown in the chart below.

It represents the results of a major study into housing market areas commissioned by DCLG and undertaken by researchers from the University of Newcastle. Calculated from 2001 Census data, it shows substantial differences between institutional boundaries and ones that are formed from citizens' behaviour in practice.

Figure 3.3 Alternative assessments of Housing Market areas



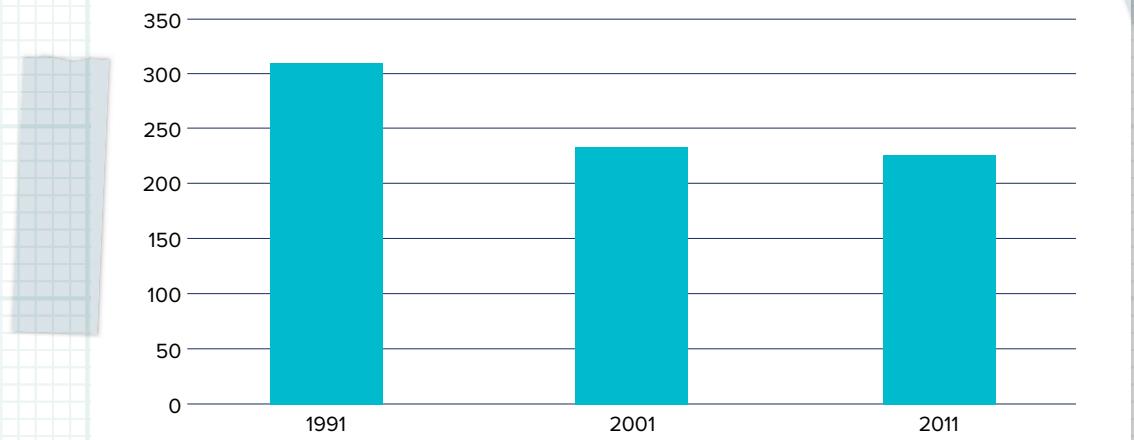
Source: Coombes and Wymer (2010) Alternatives for the definition of housing market areas, Geography of housing markets in England - paper B, map O11.4



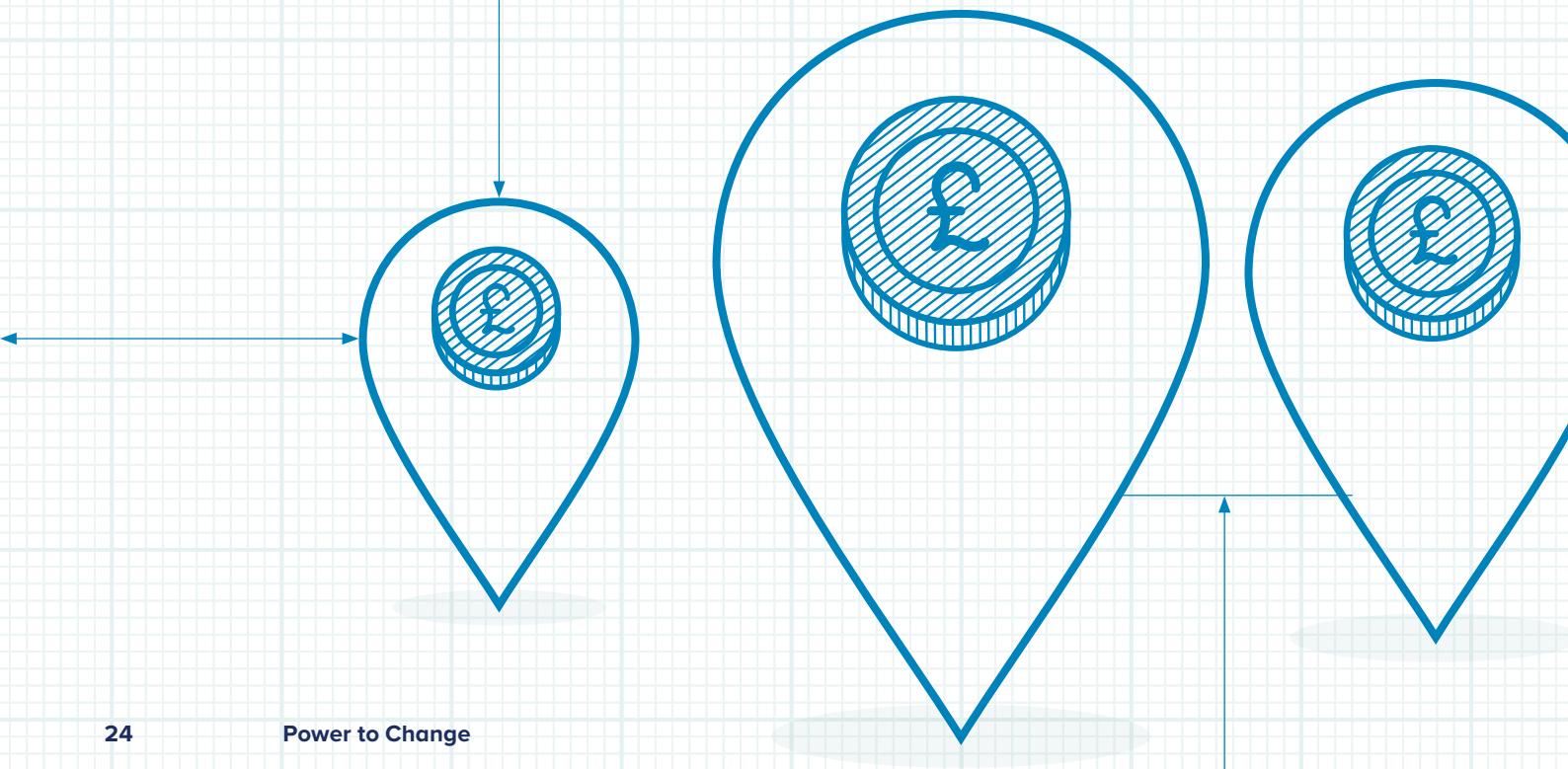
Similar issues can arise at a neighbourhood scale - the experience of Local Trust, for its Big Local scheme, has been that requests for boundary changes are significant in a (small) minority of its areas.

Indeed, economic-activity boundaries should not be taken for granted as being fixed. As figure 3.4 below shows, there have been major shifts in Transport-to-Work-Areas over time, as people have tended to commute longer distances to work.

Number of travel-to-work areas (1991 to 2011)

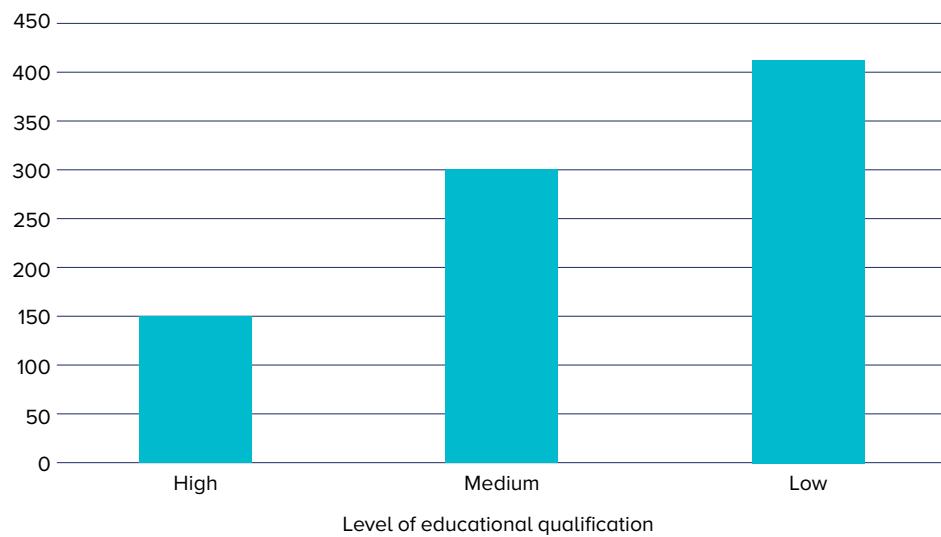


Source: ONS and Coombes (2016)



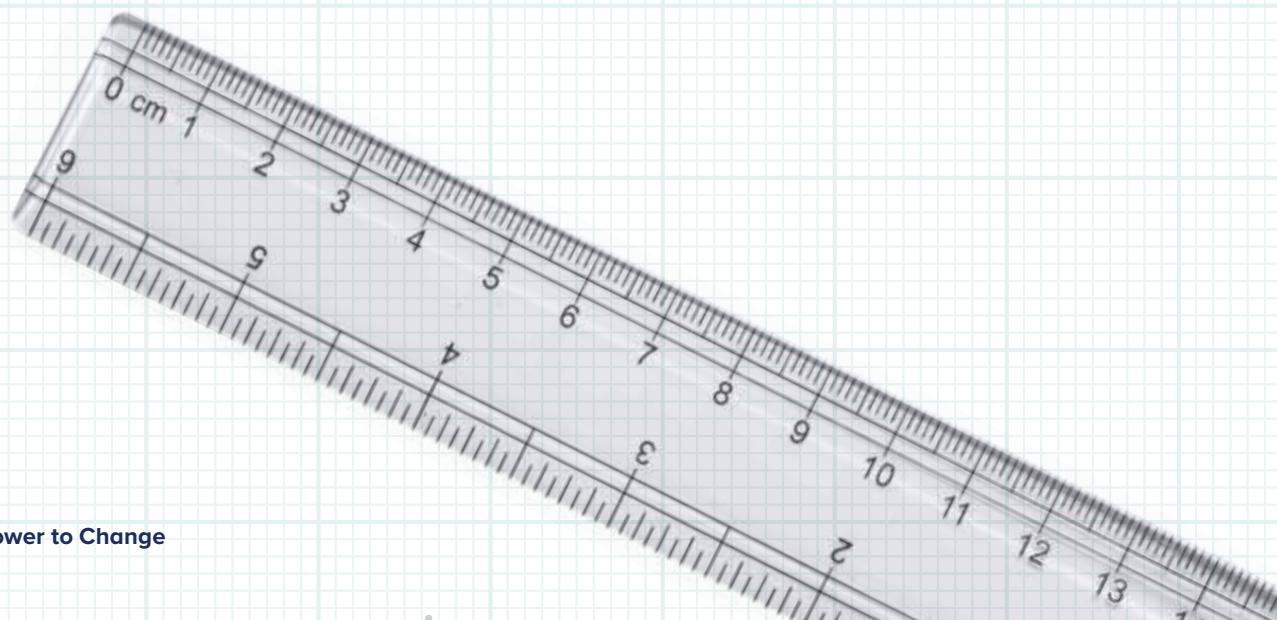
Neither is it the case that economic markets are generally the same regardless of personal characteristics. Figure 3.5 below shows different patterns emerging for those with different levels of educational qualifications.

Number of travel-to-work areas

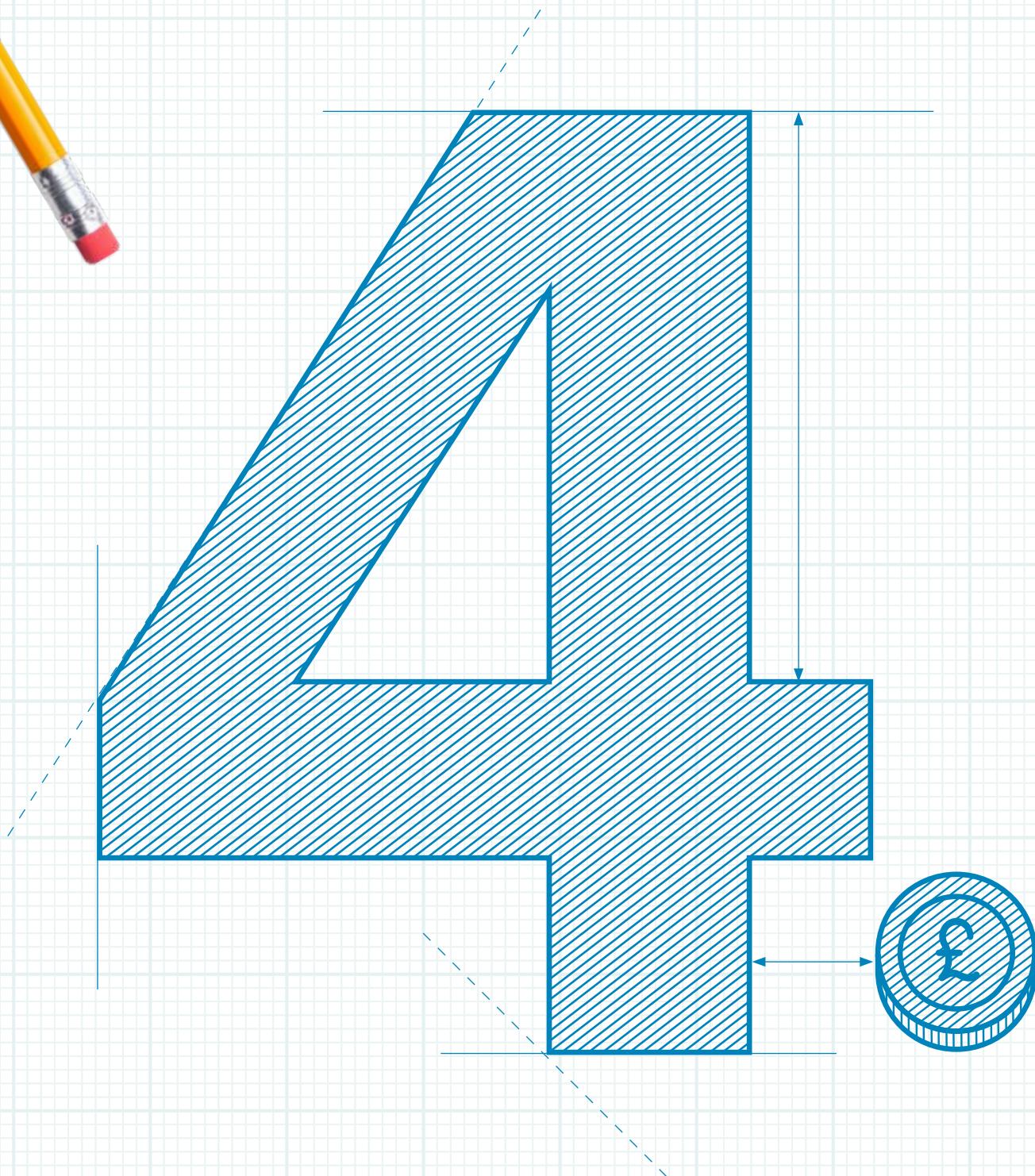


Source: ONS and Coombes (2016)

Lastly, it should be noted that the concept of “local” can vary in the context of market sectors. Bristol Pound seeks to promote “local” independent businesses, for instance, but its remit differs for some sectors - with positioning outside the main urban area being acceptable for primary suppliers (especially of food) and semi-monopolistic suppliers such as energy and rail travel.



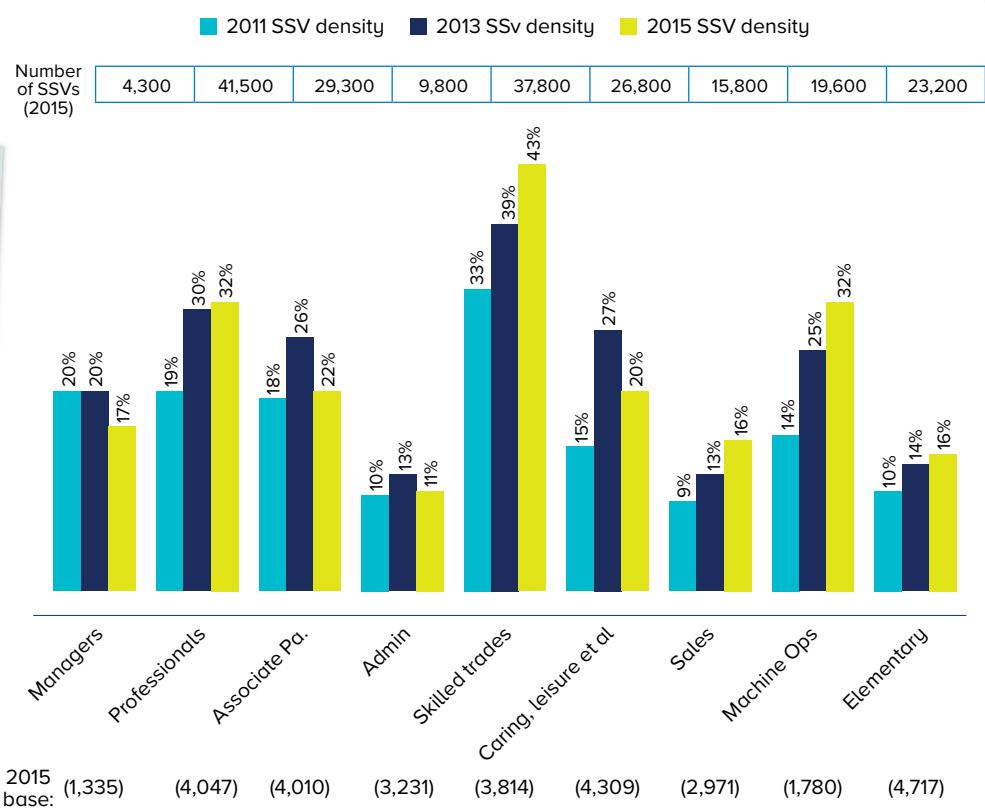
4. Success factors for social businesses within local areas



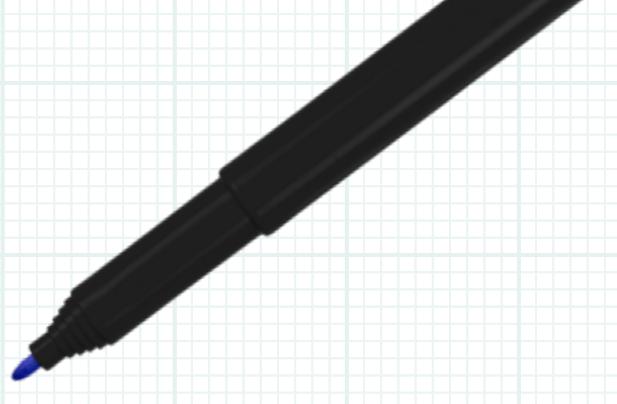
Having considered roles within local economies, and features that define them, we now turn to the theme of success factors for businesses within local areas.

One obvious feature is availability of skills. Results from a major UK survey undertaken in 2015 (see figure 4.1 below) point to a wide disparity between types of occupation. Consequently, businesses operating with skilled trades (with a vacancy proportion of 43% in 2015), or professionals (vacancy proportion of 32%), are likely to be influenced to operate in broader economic markets than their counterparts.

Figure 4.1 Proportion of Sectoral Skill Vacancies (SSV density) in UK 2011 to 2015



Source: UK Commission for Employment and Skills (2016)



More generally, the key success factors that enterprises need for success will each have different requirements in terms of minimum scale. A useful checklist of such factors is available from the Open Book of Social Innovation (Murray et al, 2010) (p61):

- | | |
|-----------------------------------|----------------------------|
| – Communities of benefit | – Supply chains |
| – Products and services | – Infrastructure |
| – Marketing and sales | – Networks |
| – CEO, team and volunteers | – Board and members |
| – Information | – Systems |
| – Business plan | – Cash |

Whereas factors such as communities of benefit may call for a narrower focus (reflecting the importance of the “personal touch”), other agendas such as marketing and sales may call for a wider remit. For instance, one interviewee, in the context of success factors for social ventures, noted that the skills available within a given bounded area may not line up with that community’s ambitions, and while some skills such as ICT can potentially be “bought in”, other agendas such as strategic level skills can be more challenging. Consequently, it is likely that the optimal balance for scale of operations will vary by sector.

It should also be noted that features for success tend to be interlinked. James (2016), a literature review for NCVO, points to “strong governance and leadership combined with sound business and financial planning” as the factors most strongly associated with successful access to social investment. It is noteworthy, however, that James (2016) identifies only patchy research on interventions that promote such factors – “though commentators commonly report that support, particularly for investment readiness, is crucial, there has not been much independent evaluation of this support and it is not clear precisely who it helps and how and/or whether certain sorts of support are more effective or helpful than others to organisations at different points in their investment journey” (p26).

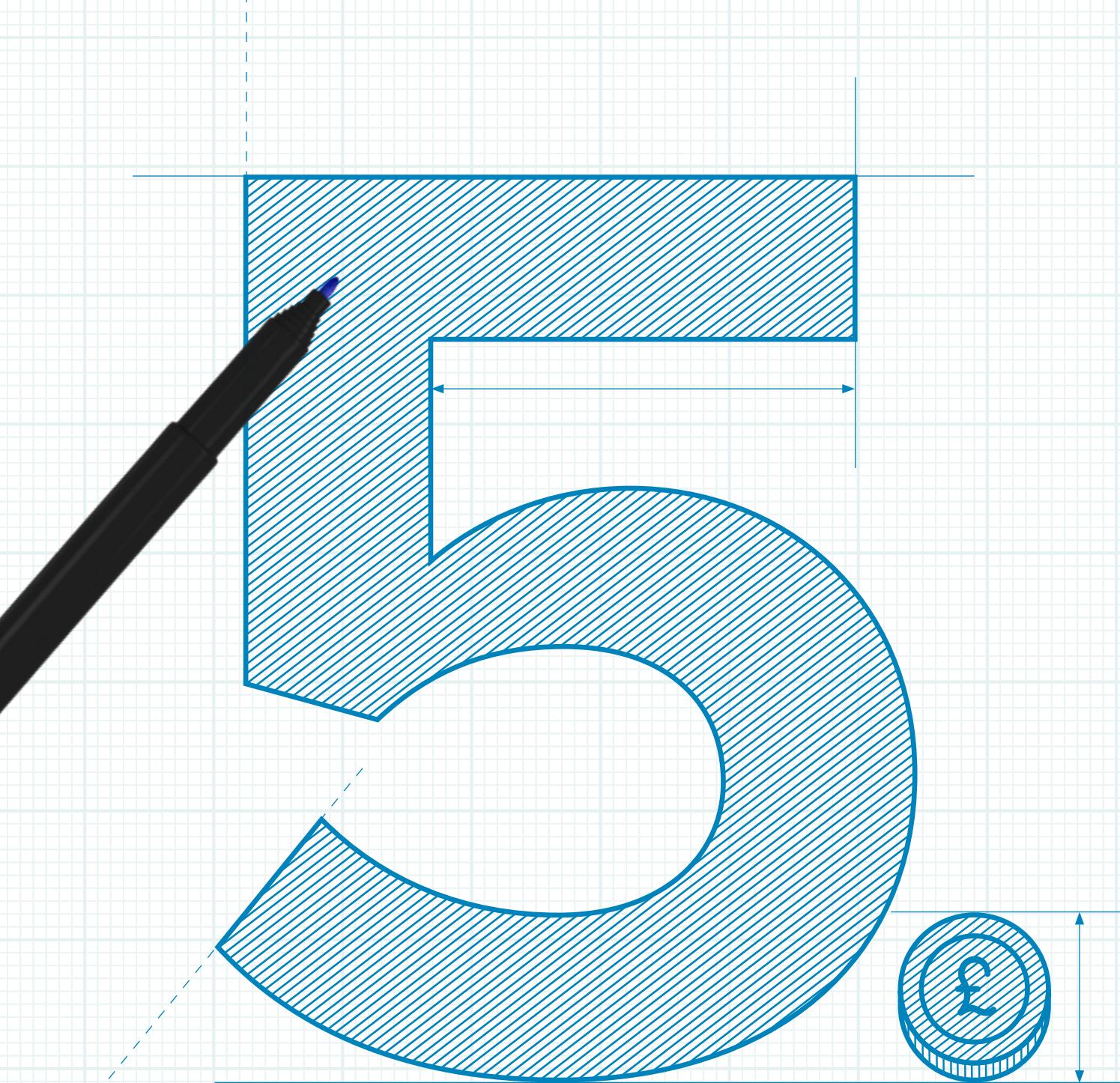
A further agenda that should be considered is the general theme of networks. There are at least three types of network which have significance for the themes of this report – first, sectoral clusters; second, functional linkages; and third, specialist resources. We consider these in turn.

Sectoral “clusters” in geographical areas were popularised as a concept by Michael Porter in ‘The Competitive Advantage of Nations’ (1990). According to Maxwell Stamp (2013), the success of a sectoral cluster “is in large part, due to people forming quality relationships and networking to achieve results – a ‘chemistry’. These linkages are informal, and are supported by more formal organisations / institutions. They work best at a community level where participants in the local industry already have formed a wide variety of relationships, and there is already some degree of dialogue and trust.”

The role of functional linkages is highlighted in UnLtd (2008): “Of particular importance to award winners, in New Cross Gate and in the other areas of the UK that we interviewed, was access to other like-minded individuals with whom they could exchange ideas and information.” Similarly, as noted earlier in this report in statistical analysis, levels of entrepreneurship appear to be positively related to both the social capital in a neighbourhood, and the ability to tap into skills and expertise.

Specialist resources are highlighted in Johanson and Lundberg (2007), a study of R&D operations in Sweden, and influences on them. The analysis found that, for at least some sectors (pharmaceutical and biotechnology) “personal networks at the local universities were reported to be of the utmost significance”.

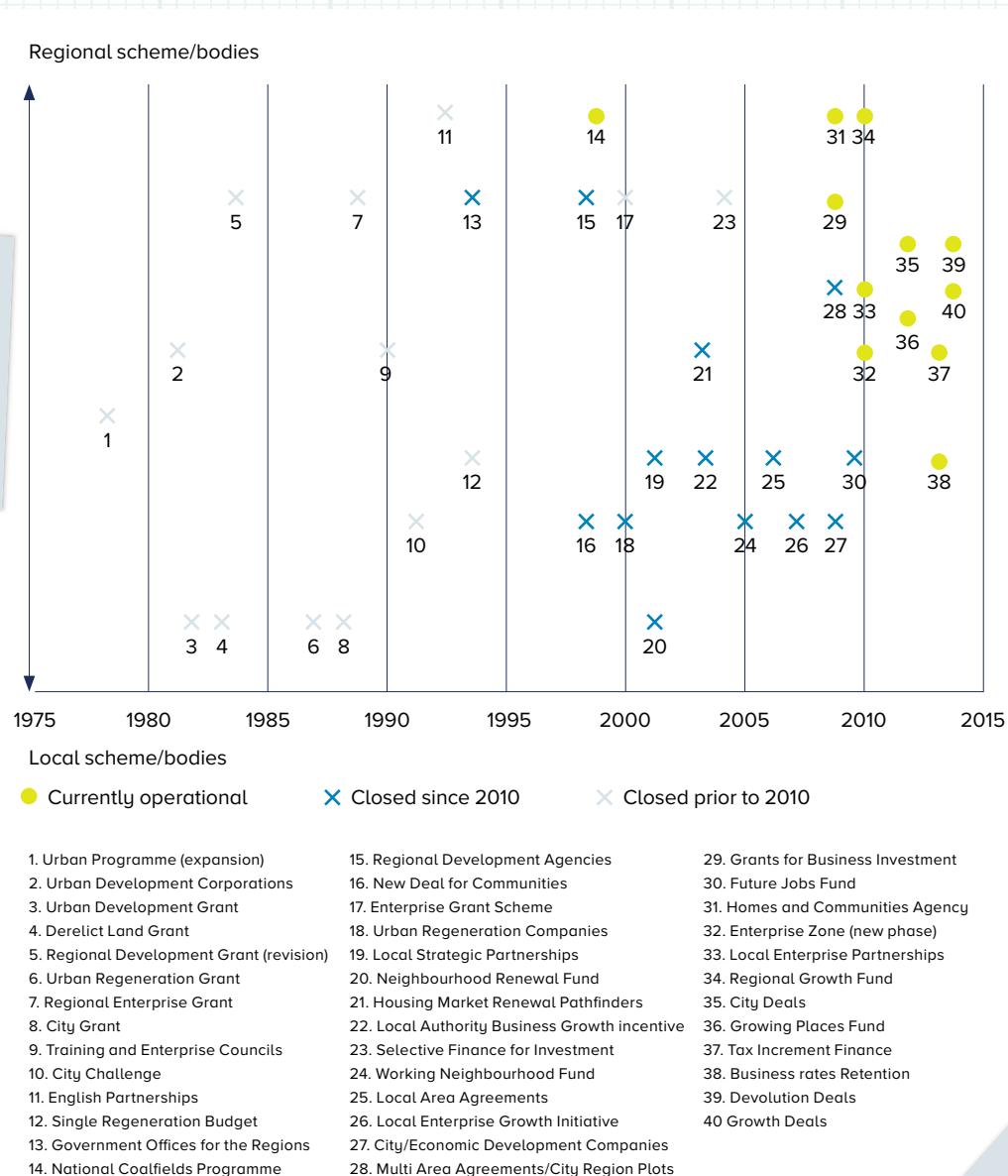
5. Shifting patterns of support for local economies



Partly reflecting the complexity of the debate on what is meant by a local economy, the UK has seen no shortage of different schemes aimed at tackling disadvantage at varying different geographical scales.

The figure below, from the 2016 NAO publication “Local Enterprise Partnerships” summarises central government initiatives for local growth over the period 1975 to 2015.

Figure 5.1 Central government support schemes 1975 - 2015





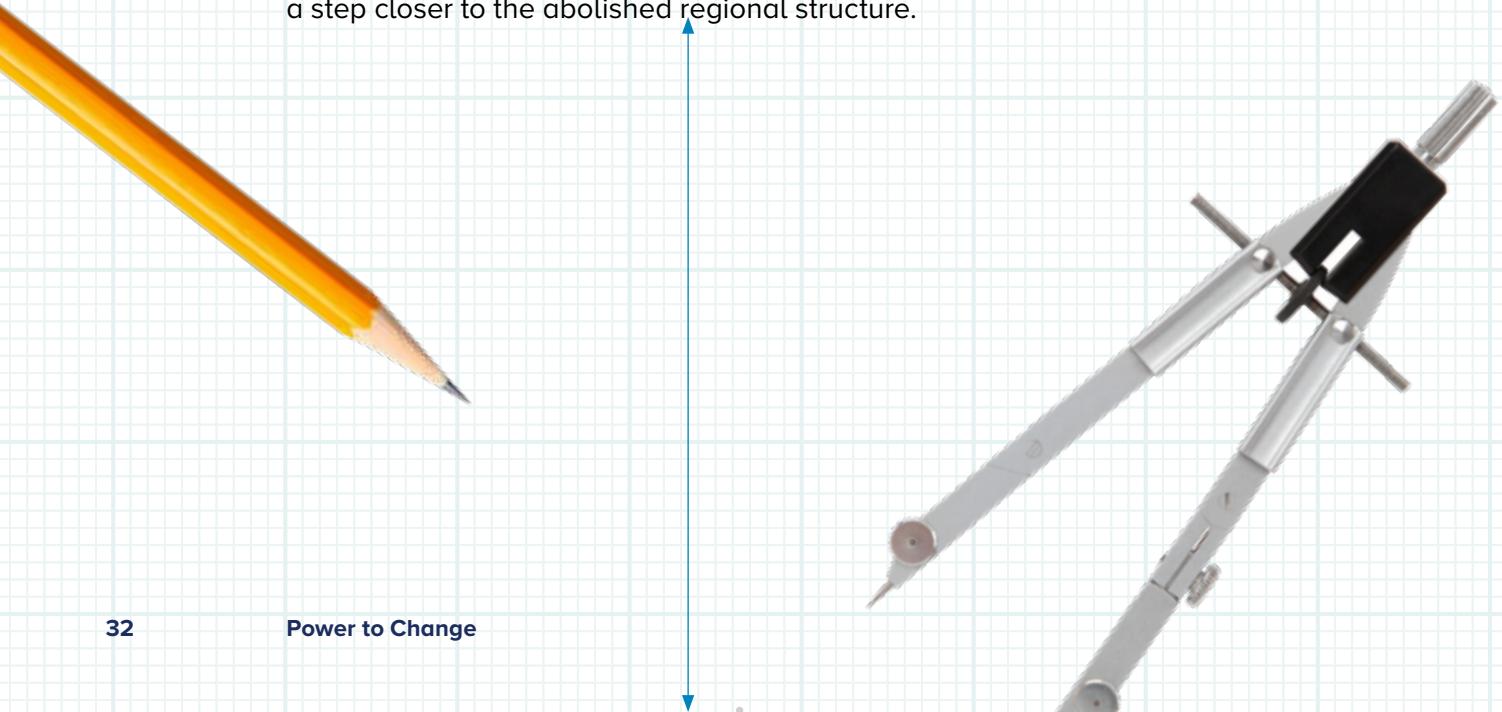
Reflecting political – rather than economic – shifts, a substantial move away from neighbourhood schemes took place over the period 2005 to 2010, while an equally substantial move away from regional schemes took place over the period 2010 to 2015.

Two initiatives are prominent for thinking outside the box in terms of scale.

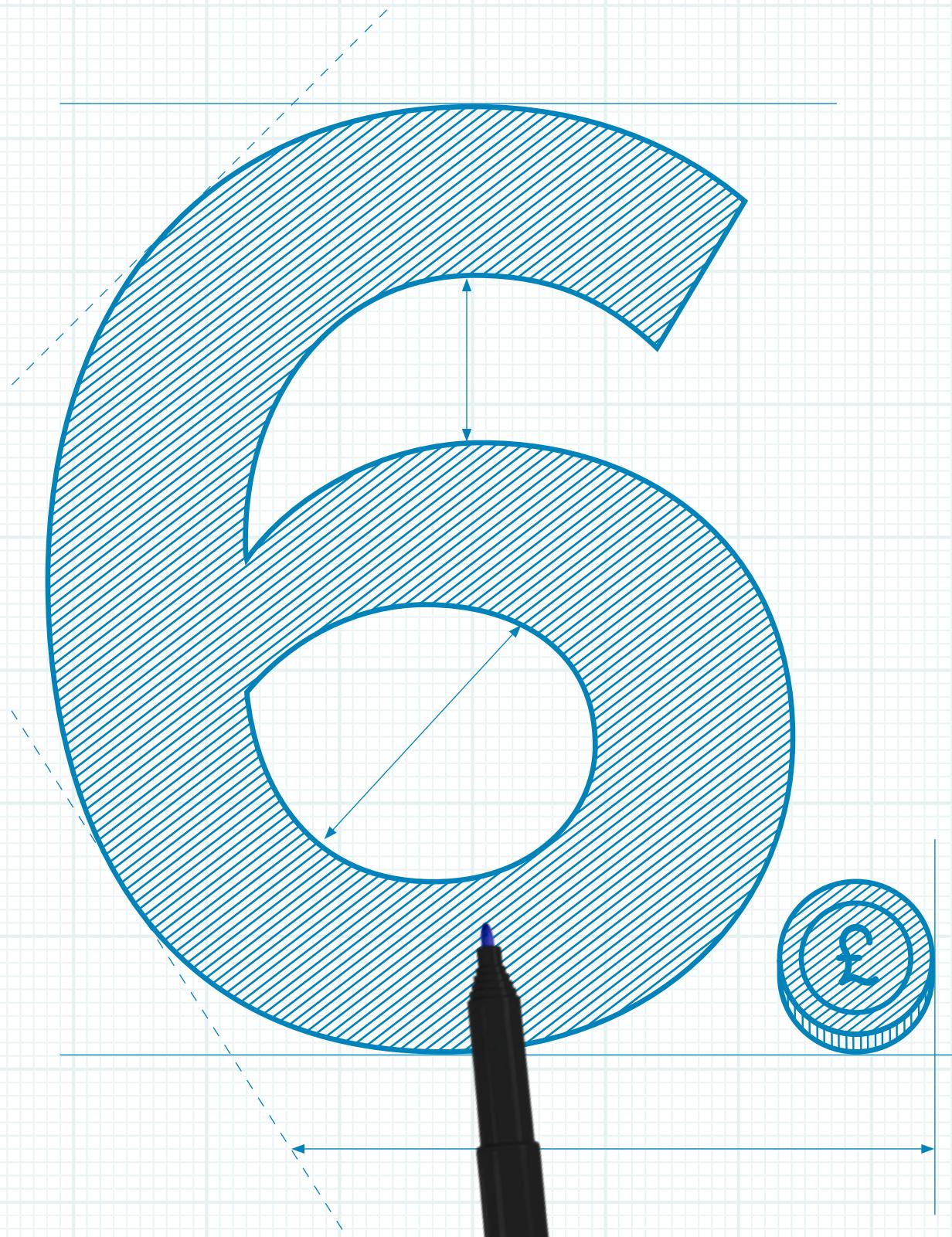
The first of these were Housing Market Renewal Pathfinders, which focussed on areas with low demand for housing in the Midlands and north of England. Such problems can readily straddle local authority boundaries, and so “eight of the nine Pathfinder intervention areas spanned more than one local authority area ... The areas varied in size but on average spanned 6,500 hectares containing about 90,000 properties with a population of over 200,000 people” (Leather et al, 2009).

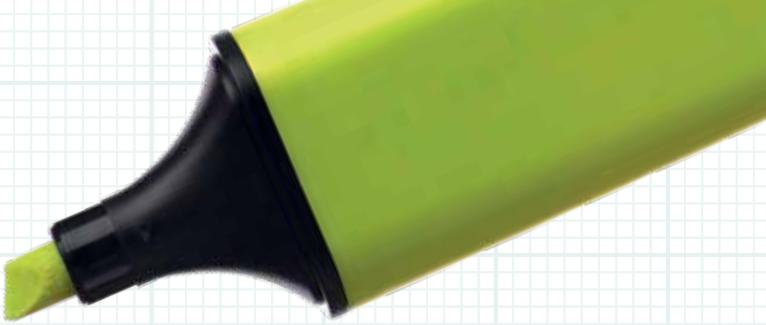
The second are Local Economic Partnerships (LEPs), which, as noted on page 7 of this report, bring together multiple local authority areas on a sub-regional basis with the aim of encouraging economic activity by businesses. On average, each LEP covers nine local authorities; 37 local authorities are covered by more than one LEP. Geographical boundaries were proposed by the partnerships and then agreed to formally by ministers. Formally, the boundaries were assessed using the criteria of local functioning economic areas; in practice, concern has arisen that “politics appears to have trumped economics” (Jones 2013) (p90).

Yet the success of the Housing Market Renewal Pathfinders was mixed; actions to demolish terraced housing in some pilot areas led to media controversy. The future for Local Economic Partnerships is open to debate; Ward (2013) argues that LEP areas were “arbitrary and self-selected”, and that mergers are needed to “create more viable units, bringing core cities together with their wider hinterland” – though this would be an action that would move arrangements a step closer to the abolished regional structure.



6. Agenda for positive action





In considering factors promoting prosperity in local economies, there are counter-veiling forces. There are, in general, positive gains when making market connections, since this enables people and places to focus on “what they do best”. On the other hand, although strands of social norms and social co-operation are vital underpinnings to flourishing communities, the features that strengthen them may be reduced by market factors.

Actions such as transport investment tend to improve the first, but not the second factor; actions such as “buy local” programmes may improve community cohesion, but limit the opportunities to learn from or gain from what is done in areas beyond.

Our perspective on an agenda for positive action has two aspects – first, the encouragement of pro-social activity by companies; and second, lessons for intermediaries.

Encouraging pro-social activity by companies

Many of our interviewees highlighted felt that action to boost employment (particularly that of those from disadvantaged groups) is important to the wellbeing of neighbourhoods. Local procurement was also seen as a beneficial goal by several of our interviewees.

However, the interviews also highlighted that the benefits of “buy local” / “employ local” have several repercussions with conflicting effects. “Hard nosed” economists would likely point to the disadvantages of localist or protectionist approaches being a weakening of comparative advantage and productivity when ‘tit-for-tat’ actions take place⁸.

On the other hand, there will also be externalities valued by those who encourage people to “think local”, such as effects on carbon emissions or community cohesion.

Such consequences raise the question of the need to be careful in identifying the pro-social activity that occurs. For instance, action that promotes employability among those who are long-term unemployed, or who have a disability, is much more likely to be tackling “market failures” than a company that simply seeks to employ locally per se.

⁸According to CLES (2017b), for instance, procurement spend by Manchester City Council on its own area has risen by more than twenty percentage points in seven years, while spend in neighbouring areas has dropped by some eighteen percentage points.

Lessons for intermediaries

We frame suggested lessons around four themes – (a) potential cohort to support; (b) additionality of support; (c) economies of scale for support; and (d) activities of support.

Potential cohort to support

The obvious boundaries for the purpose of setting local economy support are local authority administrative boundaries. These have strong attractions, as they are readily understandable to businesses, and tend to attract a sense of identity.

However, they run the risk of some inflexibility - in designing support programmes, a need to respect sector differences was highlighted by a Royal Society of Arts (RSA) respondent, who cited a need to view energy firms' more flexibly - since, in general, they require greater economies of scale than, say, groups focussed on local asset transfers.

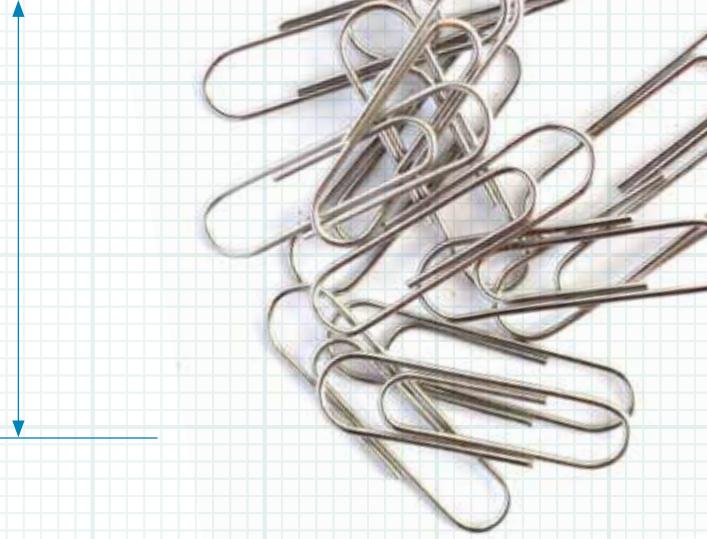
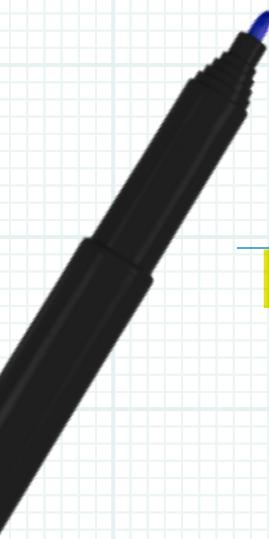
This could be checked by examining:

- (a) variations in community shareholder distribution by sector;
- (b) turnover / enterprise data for given sectors from the Annual Business Survey⁹;
- (c) patterns of opinion as to the importance of “local” in the SEUK – social enterprise survey.

A possible way forward is to increase the number of local authorities covered, perhaps drawing on insights from travel-to-work areas and/or housing market areas. This has the advantage of increasing the number of organisations that can be reached, but potentially detracts from a sense of inclusiveness and identity to the group.

Also worth considering is a comparison between the two potential approaches of (i) supporting only the core local authority; and (ii) supporting the core local authority plus parts of neighbouring areas. Indications of which approach is more “natural” could be gained by examining the circulation areas of suitable local newspapers, and/or the scope of local radio stations. The existence of clusters is also a potentially crucial consideration.

⁹www.ons.gov.uk/businessindustryandtrade/business/businesservices/datasets/uknonfinancialbusinessesconomyannualbusinesssurveynsectionsas



Additionality of support

The boundary scale chosen will also influence the extent to which a given support programme provides additionality. That is because the pattern of support provision is likely to be diverse, and so there may be areas covered that already have schemes in place. In theory this could be done by checking through the major programmes identified by the Innovation Growth Lab¹⁰, in practice it may be much more feasible to use those programmes as a checklist for interviews with experts in LEPs and/or Chambers of Commerce.

A further aspect of additionality relates to whether a given area is thriving already, and so has less need of support. One possible source of information on this issue is the “Start Up Britain” index, from the Centre for Entrepreneurs¹¹, which uses data on start-ups from Companies House to assess the rate of start-ups by local authority area.

Economies of scale of support

A programme of support needs to have a certain level of successful applicants to achieve good value for money, which will depend on its start-up costs and ongoing management costs. We would anticipate a calculation along the lines of xx number of applicants per population, yy% of these would be suitable for the programme, zz = xx * yy is the number estimated for a given area. The challenge is to ensure that zz achieves a viable threshold.

One way to undertake such calculations would be to draw on experiences from such examples as the RSA Community Business Leadership programme, which has 15 to 20 members for its South West and North of England regions.

Activities of support

Our Local Trust respondent raised the view that support structures are more effective when they bring together clients on a peer-to-peer basis with a shared local perspective, as well as a shared goal; but to combine this approach with an ability to network with a wider group as and when specific technical expertise is required.

¹⁰ <http://innovationgrowthlab.org/blog/business-support-research-methodology>
¹¹ <https://centreforentrepreneurs.org/how-entrepreneurial-was-the-uk-in-2015/>

This approach tallies well with research that suggests that peer learning can be a powerful approach to gaining knowledge¹²; however, it is important to recognise that there may well be different types of participants (e.g. high-income, highly educated residents; new immigrants; residents of close-knit, relatively low-income communities that have a distinct cultural ethos), and make plans accordingly.

The support programme may also benefit from thinking innovatively in terms of organisational boundaries.

One view expressed in interviews was that local authorities can do more to promote synergies between their local economy and citizens' needs. In particular, it was felt that while progress is being made in measuring social value, action should also be taken in culture change to connect actions on wellbeing / adult social care with economic development strategy.

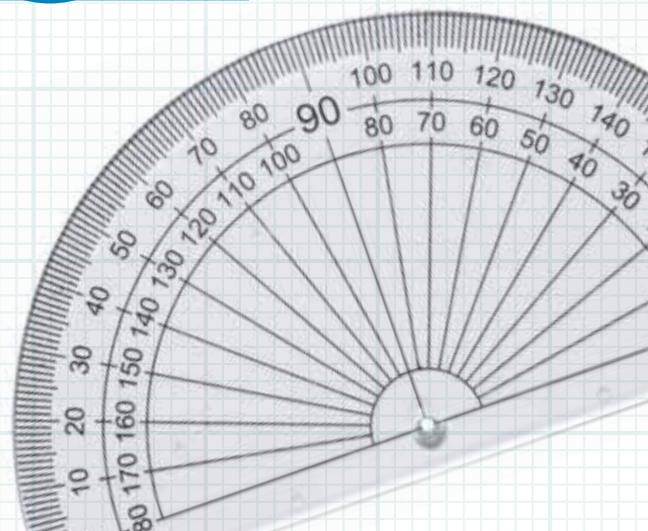
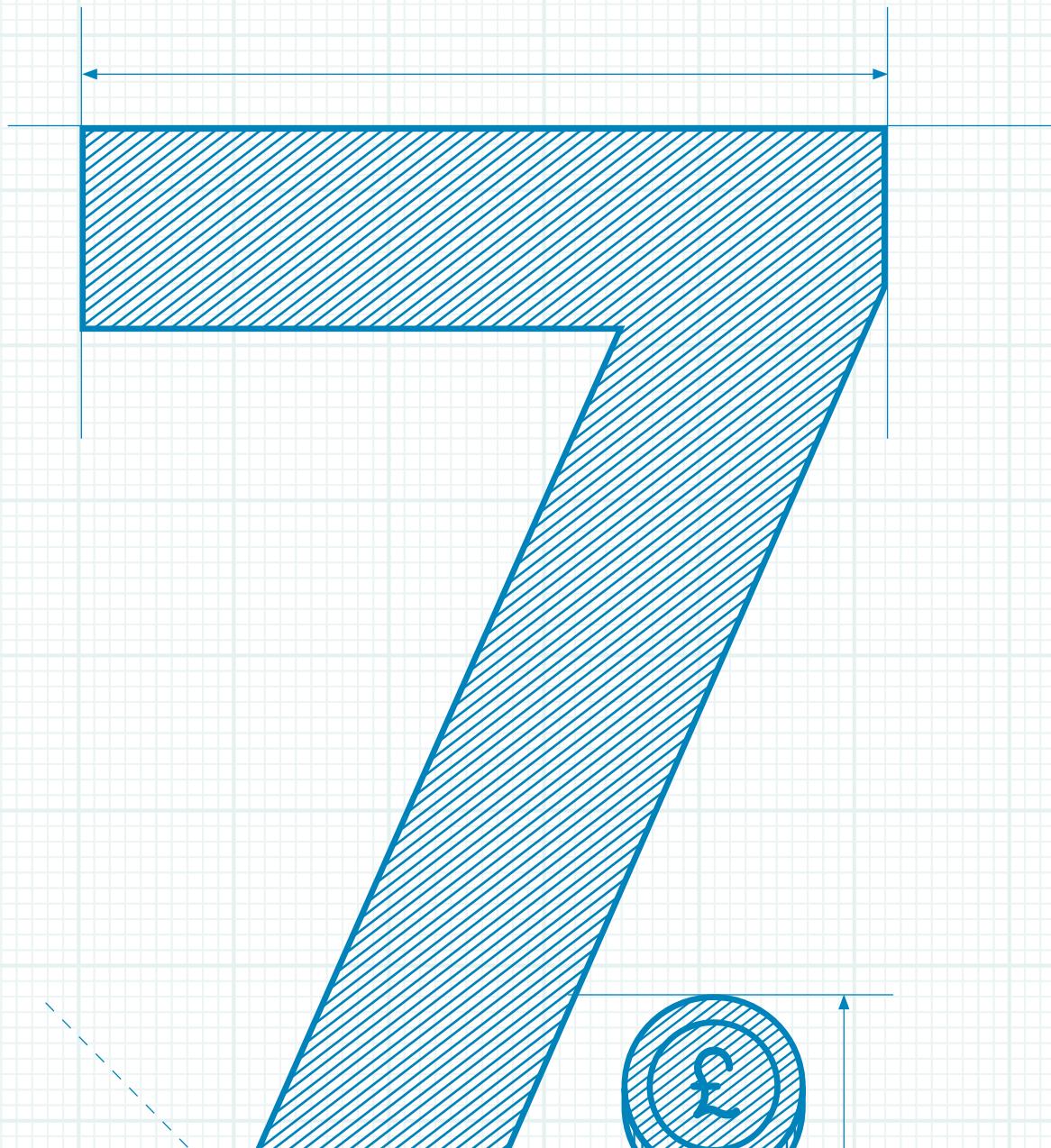
Pros and cons for different scales of support programme

The table below summarises some of the issues raised by the above discussion.

	Local authority	Local authority plus	Sub-regional
Cohesive group	✓/✗ may be some tensions around boundaries for participants	✓/✗ may be some tensions around boundaries for local authorities	✗ weaker identity, but still acceptable e.g. in case of city regions
Scale of group	✓ relatively limited	✓/✗ some scope to allow for different sectors having differing scale	✓✓✓ would be able to operate without constraints on scale
Potential synergies	✓/✗ can envisage system working well on locality basis	✓/✗ can envisage system working well if 'give and take' by authorities	✓/✗ can envisage system working well if 'give and take' by authorities and participants

¹²<http://www4.ncsu.edu/unity/lockers/users/f/felder/public/Papers/CLChapter.pdf>

7. Conclusions



The success, or otherwise, of a local economy is affected by many factors, including the productivity of businesses that operate in the area; the extent to which they act in a 'pro-social' way; the level of demand in the area; and the formal and informal intermediaries that connect businesses with communities.

Action to intensify a local perspective carries risks. From the perspective of those within a community, the improvements may be unevenly distributed - gentrification processes, for instance, may benefit landlords, but lead to higher rents for tenants. From a system perspective that considers multiple areas and future consequences, an emphasis on protectionism may lead to tit-for-tat behaviour that leads to fragmentation and mistrust.

At the same time, not promoting a local perspective risks cutting across community cohesion and action to protect and strengthen the environment. Many citizens feel disconnected from, and disempowered by, large companies operating in their area.

Managing such risks requires decision-makers to adopt a route that promotes pro-social and pro-environmental behaviour within local economies (for instance, through boosting apprenticeship schemes for young unemployed people), while also recognising the opportunities from connecting with socially responsible businesses in other areas.

We see important lessons for this task in the factors that promote entrepreneurship in local economies. Immigrants appear to act as a catalyst for increased levels of entrepreneurship. Conversely, close-knit areas with a distinct cultural ethos tend to create the social capital that also enhances entrepreneurship.

These patterns point to a need for organisations such as Power to Change to identify and strengthen the networks that underpin local businesses – not just sector networks that operate in geographical clusters, but also community connections that often play a crucial role in enabling start-ups to maintain and sustain themselves.

Such networks do not respect local authority boundaries – indeed, there is no strict definition of what constitutes a local area. Regardless of policy perspectives, actual on-the-ground economic-activity boundaries tend to change over time, and differ according to social characteristics - those in professional occupations are much more likely to engage with a wider geographical perspective.

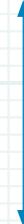


We would, therefore, encourage Power to Change to adopt a flexible approach with respect to data sources. As well as formal sources such as the Annual Business Survey, we believe that detailed analysis of the SEUK social enterprise survey could be productive, as could more ad-hoc analyses such as reviews of community shareholder patterns.

One major theme that we would recommend relates to social capital. Unfortunately, only limited proxies exist – but such data as to exist point to major variations between areas; potential lessons to be learnt as to how it can be encouraged; and an important research agenda to review changes in entrepreneurship, and changes in social capital over time.

Lastly, in consideration of themes to cover in supporting community businesses, drawing on the issues identified in this report, we would cite the following as a checklist:

- Sector cluster networks (potentially including local university researchers);
- Peer support networks;
- Community networks;
- Specialist advice (marketing, IT, financial modelling, financial advice, governance);
- Community engagement (including social inclusion roles); and
- Stakeholder engagement (connections to LEP and local authorities where these can either undertake actions to create opportunities or remove barriers).



Annex 1: Literature review

Search methodology

A search of the social science literature was undertaken at the British Library. Key words used were:

- Local economy
- Local economic development
- Neighbourhood economy
- Local currency
- Local employment network

This search was supplemented by a check on Google in relation to the same key words, and also a follow-up on papers citing key academic papers.

Listing of papers

	Type
Blanc and Fare (2016) Turning values concrete, Review of social economy	Academic
Byrne et al (2015) The role of proximity in value preferences: a study of consumer co-operatives, Annals of Public and Cooperative Economics, 86 (2)	Academic
CLES (2017a) Community wealth building through anchor institutions, CLES	Grey
CLES (2017b) The power of procurement II – the practice and policy of Manchester City Council 10 years on, CLES	Grey
Cox et al (2013), Love thy neighbour: people and place in social reform, IPPR	Grey
DCLG (2010) Functional economic market areas: an economic note, DCLG	Grey
Deloitte (2016) In pursuit of impact: mission led businesses, Deloitte	Grey
Delta Economics, IFF Research (2011) Hidden Social Enterprises: Why We Need To Look Again At The Numbers, Delta Economics and IFF Research	Grey
Dellots et al (2014) Making the Connection, RSA	Grey
Dunford et al (2006) Underserved markets, Business In The Community	Grey
Fare and Ahmed (2013) Complementary currency systems: questioning social and economic changes, Lyon University working paper	Academic
Folmer (2013), Entrepreneurship in the neighbourhood: shifting patterns in five Dutch cities, Journal of Urban Affairs	Academic
Gelman and Hill (2007) Data analysis using regression and multilevel/hierarchical models, Cambridge University Press	Academic
Handy, Good Business, in Christie and Nash (eds) (1998) The Good Life, Demos	Grey
Hart et al (2008) Evaluation of Regional Selective Assistance (RSA) and its successor, Selective Finance for Investment in England (SFIE), BERR	Grey

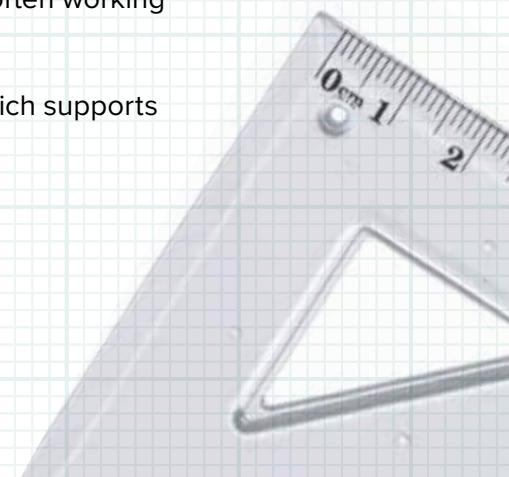
Heseltine (2012) No stone unturned – chambers of commerce international comparisons, Department of Business Innovation and Skills	Grey
Imrie and Wilks-Heeg (1996) Stakeholding and local economy, Local economy	Academic
Interserve (2015) Communities in context: social value mapping, Interserve	Grey
Johanson and Lundberg (2007) The Impact of Geographical Proximity and Technology on Firms' R&D Operations, Finanza, Marketing e Produzione	Academic
Jones (2013) It's like déjà vu all over again, in Ward and Hardy (2013) (eds.) Where next for Local Enterprise Partnerships, Smith Institute and Regional Studies Association	Grey
Kim et al (2016) Conditions and strategies for success of local currencies, Local economics	Academic
Knack (2000) Trust, Associational Life and Economic Performance, paper to HRDC-OECD International symposium on the contribution of investment in human and social capital to sustained economic growth and well-being	Grey
Kruschke and Liddell (2017) The Bayesian New Statistics: Hypothesis testing, estimation, meta-analysis, and power analysis from a Bayesian perspective, Psychonomic Bulletin & Review	Academic
Leather et al (2009) National evaluation of housing market renewal pathfinders 2005–2007, DCLG	Grey
McCaffrey and Kurland (2015) The US buy local campaign and CSR in SMEs, Organization and Environment	Academic
Maxwell Stamp (2013) Guidelines for cluster development, report for Government of Croatia, Maxwell Stamp	Grey
NAO (2016) Local Enterprise Partnerships, NAO	Grey
Neumark et al (2016) Common footprint, RSA	Grey
Norberg-Hodge and Henriques (1998), Think Global, Buy Local, in Christie and Nash (eds) (1988) The Good Life, Demos	Grey
ONS and Coombes (2016) Travel to work areas in Great Britain	Grey
PWC (2016) Good growth for cities 2016, PWC	Grey
Saad, Douglas and James (2011) Summary of academic research into purchasing practice of small and medium-sized enterprises, University of the West of England	Academic
Schifferes et al (2014) Shopping for Shared Value, RSA	Grey
Social Enterprise UK (2015) Leading the world in social enterprise: state of social enterprise survey 2015, Social Enterprise UK	Grey
Siegler (2016) Social capital across the UK, ONS	Grey
Teasdale (2009) Can social enterprise address social exclusion? Evidence from an inner city community, Third Sector Research Centre working paper	Academic
UK Commission for Employment and Skills (UKCES) (2016) Employer Skills Survey 2015: UK Results, UKCES	Grey
UnLtd (2008) Supporting social entrepreneurs in a multiply deprived environment, UnLtd	Grey
Vollmer (2013) What drives social enterprise activities in Europe on a regional level? A multilevel analysis of social economic factors influencing social enterprise growth, Doctoral dissertation, University of Mannheim	Academic
Wakefield Inclusive Growth (2015) Inclusive growth in Wakefield, Wakefield Council	Grey
Ward and Hardy (2013) Introduction - Where next for Local Enterprise Partnerships, in Ward and Hardy (2013) (eds.) Where next for Local Enterprise Partnerships, Smith Institute and Regional Studies Association	Grey

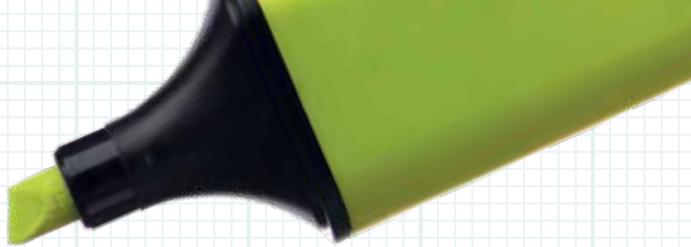
Annex 2: Key points from interviews

The comments from expert interviewees below represent personal views, and should not necessarily be taken as representative of organisational viewpoints.

Big Lottery Fund (Samantha Magne)

- Spectrum of businesses can provide useful added value to local communities e.g. Delta Economics (2010) report – many SMEs have ‘social enterprise’ aspects. BIS Mission-led business report picks up on this theme. It also sets scene for role of business in civil society and its communities.
- Building Better Opportunities matches ESF money to support those furthest from the labour market on a journey back to work. Many of its local partnerships include initiatives that take a neighbourhood approach working through local anchor organisations and developing links with local businesses.
- Business Connectors sought to build strengths in the VCSE sector, and was delivered by people working on secondment from corporate businesses.
- Large variety of activity - activities included supporting: social entrepreneurs; people facing disadvantage to become self-employed; building local business forums.
- Reaching Communities investments have areas of benefit from neighbourhood to national. Some local projects have successfully built relationships with large businesses – for example Shekinah Mission in their employability support work.
- Main grant programme and strategic grants often attract initiatives operating across communities e.g. Big Local; Village SOS which supported community enterprises to work up their ideas into a viable business plan; Award for All Funding for small neighbourhood focussed VCSE community groups and community businesses.
- Supported development of social ventures through social investment and social investment readiness programmes – for example Next Steps, Big Potential, Growth Fund. Many investees are local in focus often working at LA geography.
- Invested in the establishment of Social Enterprise Mark, which supports promotion and development of social supply chains.





- BLF is moving to more place-based approach, looking at players / local assets, making system work better. Also recognises role to play in connecting learning between neighbourhoods and geographies of other sizes.

Bristol Pound (Stephen Clarke)

- Bristol chosen as ‘large urban area’ that is quite cohesive and coherent as an area and has an identity that is prepared to be idiosyncratic, strengthened by use of ‘real’ cultural boundaries, not the administrative ones from the 1970s reorganisation
- Not risk free – members and clients need trust and belief in ‘local’ to adopt scheme
- Membership is local independent businesses, however, some flexibility in how the scheme operates, for example, recognises that food production is outside urban areas
- Strengthening cultural identity is a major part of the ambition of Bristol Pound, not just direct economic activity
- Academic interest tends to fall between traditional subject fields, but engaging two universities on the theme
- Other cities in England looking seriously at similar schemes, but Bristol have set of circumstances that may make it hard to replicate

Business in the Community (Jane Pritchard)

- Socially responsible activities tend to occur alongside each other rather than as one-off features (e.g. a company that values skills training for employees may well also offer support for wellbeing activities in the local community)
- Local procurement action tends to occur much more with construction and economic development; big businesses tend to focus on area around headquarters for instance
- arc programme is designed to connect social enterprises with expert support and business opportunities to help them grow. It reports on local jobs created, and proportion of these that go to people in disadvantaged groups – see Impact report



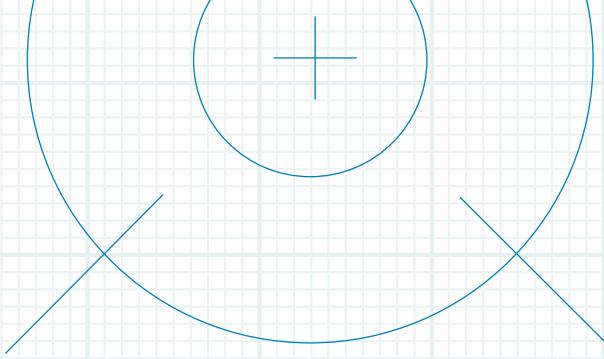
- Interserve have produced a social value mapping tool – worth considering
- Wates are notable for their efforts to improve social value, see case study on Business in the Community website
- Social Value Act is having an effect, seeing tenderers pay more attention.
Also seeing social value in Housing Associations, such as support for young adults getting jobs

Community Catalysts (Sian Lockwood)

- nef research on local multiplier effects and local currencies is worth considering
- Citizens views on neighbourhoods may not match with formal geographic boundaries – as indicated in research for Wakefield in 2015
- Inter-relation between place and business is not straight-forward, the definition used by Power to Change is perhaps at one end of a spectrum.
Useful role played by large companies such as Morrisons at local level; but also see highly place-based businesses in places such as Wakefield
- Social value aspect of community businesses offers opportunities that those connecting with them could be more aware of – e.g. it is relatively rare for Local Authority economic development and social care departments to be linked up

Joseph Rowntree Foundation (Mike Hawking)

- Procurement and employment practices both important
- Useful to consider Leeds Beckett work on anchor institutions (2017), and Sheffield Hallam (2016) research on infrastructure projects
- Key principle for effective job-support is understanding pipeline of work and that enables local connections to work towards meeting that future demand
- On an ‘everyday activity’ basis, smaller businesses that feel part of community tend to be more ‘locally’ supportive
- Different geographical units apply to different contexts - activity at ward level,



but funding at LA or LEP level or functional labour market area

- Perceptions of what is local may differ, and can be lack of willingness to travel to sources of jobs even when transport links improved
- JRF considering further attention to agenda of business interaction with communities

London School of Economics (CASE) (Dr Bert Provan)

- 2014 Joseph Rowntree Foundation paper on cities, growth and poverty is well worth examining
- Access to job location is necessary but not sufficient, for instance Stade De France is based in highly deprived area, but less than 10 were employed there out of thousands in a major scheme
- Should be considering policy levers in terms of both carrots and sticks (e.g. Business rates, S106 agreements etc)
- Impact measurement potentially rising up the agenda (e.g. Harrow Council engaged the Social Value Portal to pilot a social value assessment tool on a tender for the renovation and refurbishment of a major council property in Harrow)

Local Trust (Rachel Rowney)

- Local Trust's Big Local scheme works with localities with average population of 6,000 - range from 1,000 to 20,000
- Big Local areas were set by funder
- Some scope for working with residents to change boundaries – a small proportion (10% or so) have done so where the boundaries “don’t feel natural”
 - either because ignores the informal connections or because there have been new developments
- Steering group members around 75-80% from the area (minimum proportion is 51%)
- Peer learning is very highly valued, as is quick, reliable technical advice

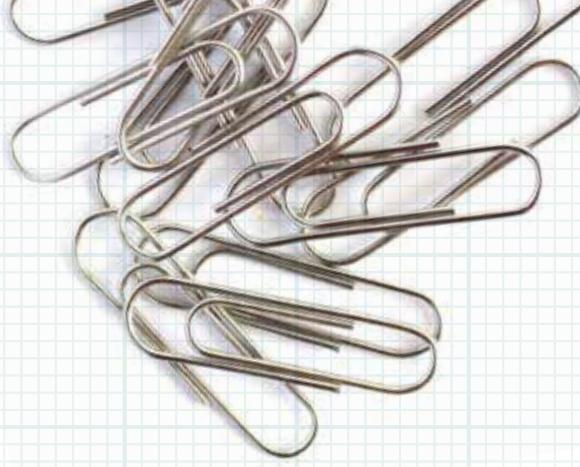


RSA (Atif Shafique)

- Role of business critical to inclusive growth
- RSA Shared value programme worked with Asda, B&Q, and Post Office (see report by Ben Dellots on community hubs)
- May be scope for learning from Germany – for instance, Lord Heseltine's report gave their local chambers of commerce favourable coverage
- PWC "Good growth" report may be worth considering
- Co-operatives UK – alternative business models worth considering
- CLES – Preston – "Anchor institutions" worth reviewing
- RSA inclusive growth – "Principles into practice"

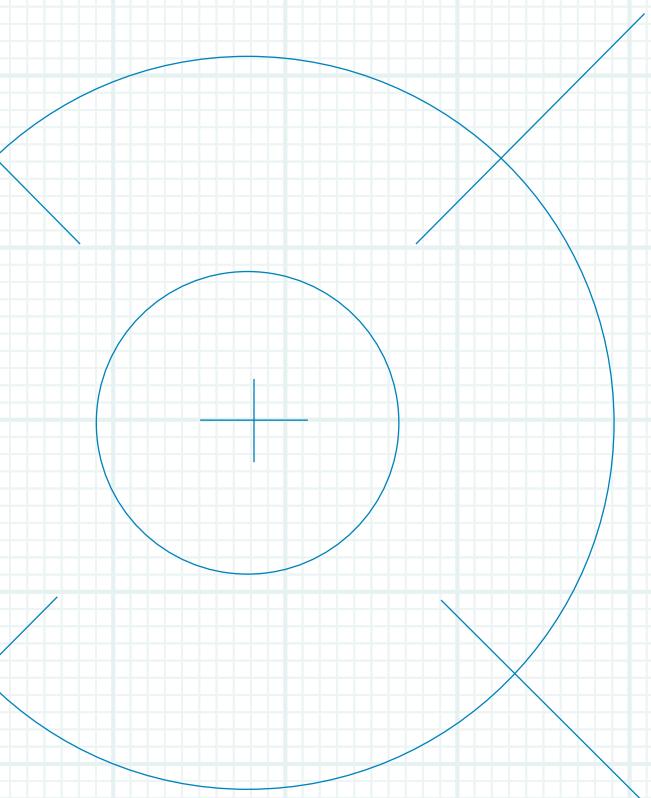
RSA (Josie Warden)

- Programme on community business leadership for Power to Change currently working with Sheffield University Management School - qualitative feedback of this programme is available and potential scope for gathering further research in the field of community business
- Differences in perspectives between cohorts of the leadership programme, and differences in scale of enterprise as sector varies
- Passion / skills set for solving "local" problems don't always go together
- In terms of skills or support needed, it may be useful to distinguish between:
 - (a) organisations/groups who are trying to take over an established asset that was previously in local hands, such as a local library;
 - (b) those who are taking over/replacing a service that was commercially run, such as a local pub; and
 - (c) those who are setting up an entirely new service.
- For sources of data on the scale of "local", one option is to examine the holders of community share offers. A further option is surveys – though those in disadvantaged areas can be rather wary and tired of being asked questions in surveys



Social Enterprise UK (Dan Gregory)

- Worth examining 2011 “Right to run” report on potential spin-off mutual and social enterprises, which has a typology of benefits for different types of organisations
- Social value “is in the eye of the beholder”, potential for different perspectives should be noted
- A “critical friend” economist perspective, would perhaps see advantages in the “local” in terms of (a) productivity – with greater commitment, and ability to support unemployed local people into jobs; (b) carbon emission reduction – with shorter distances for work and goods travel; (c) resilience – with more self-sufficiency for local markets; and (d) social capital, with greater connections made at local level



Annex 3: Calculating impact of factors influencing entrepreneurship

The base equation, as set out in table 2.1 is:

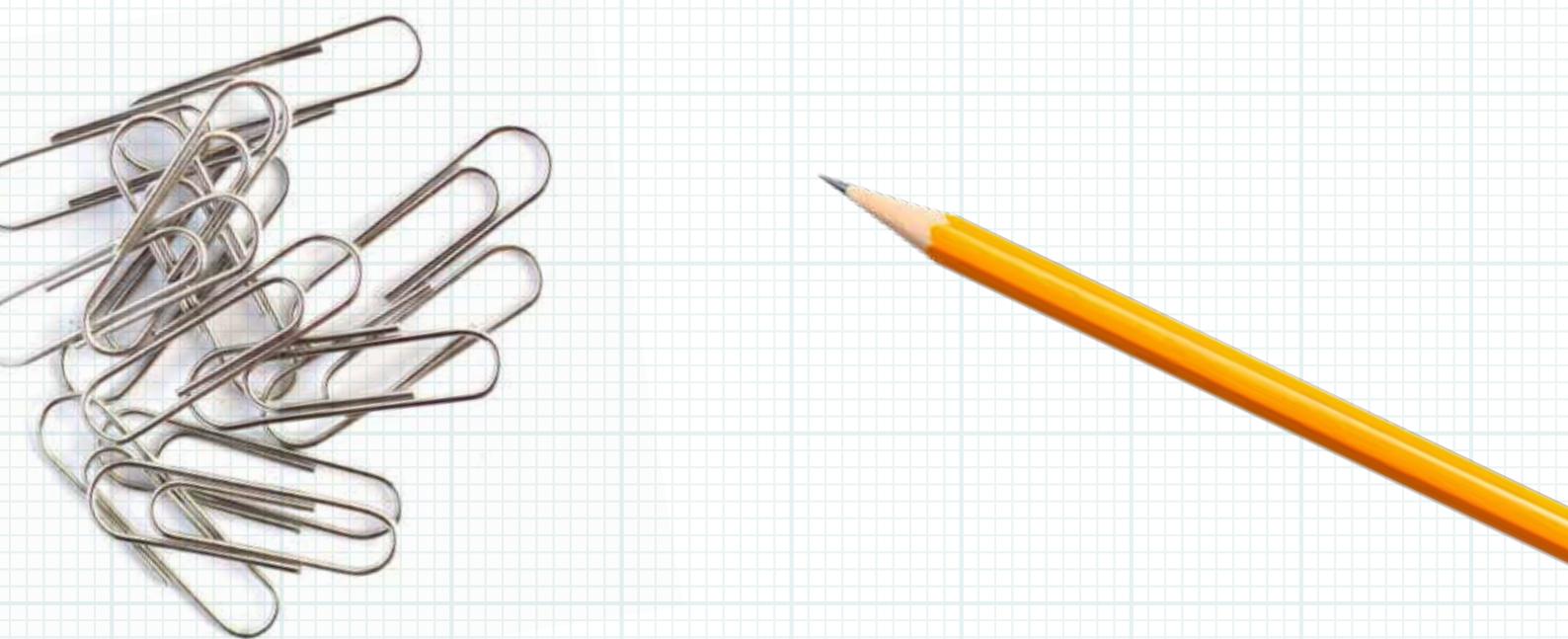
	Coefficients
Intercept	4.815
$\ln (\text{HE (free school meal) (FSM) } \%)$	0.319
$\ln (\% \text{ migration})$	0.208
$\ln (\% \text{ managers or professionals})$	0.789

The values of the three factors expressed in both normal form and natural log observed in our sample of local authorities are set out in table A3.2 below.

	Values		Values expressed in natural log form	
	Average	3rd quartile	Average	3rd quartile
Higher Education FSM (%)	22.6%	29.8%	-1.48	-1.21
Migration (%)	1.30%	1.92%	-4.34	-3.95
Managers or professionals (%)	27.9%	31.6%	-1.28	-1.15

Table A3.3 applies the framework of the model to selected values above to create the results shown in figure 2.2.

	Base case	Base case amended for upper quartile migration	Base case amended for upper quartile social capital
Intercept	4.815	4.815	4.815
$\ln(\text{HE (free school meal)} * 0.319)$	-0.474	-0.474	-0.387
$\ln(\text{migration}) * 0.208$	-0.905	-0.824	-0.905
$\ln(\text{managers or professionals}) * 0.789$	-1.008	-1.008	-1.008
Sum of above terms	2.427	2.508	2.515
Assessment of start/up rate per 1,000 population (in normal values – translating back from log terms)	11.33	12.28	12.36



Annex 4: Use of Bayesian analysis to determine range of estimates for scenarios

A crucial advantage of a Bayesian approach is that its “algorithms and software are robust across a wide range of complex models that can be very flexibly specified by the analyst” (Kruschke and Liddell 2017) (p15).

A standard Bayesian approach looks to identify the “highest density interval” (HDI) – the values that the parameter under investigation are most likely to take. A 95% highest density interval contains the parameter values of highest probability that together span the 95% most probable values.

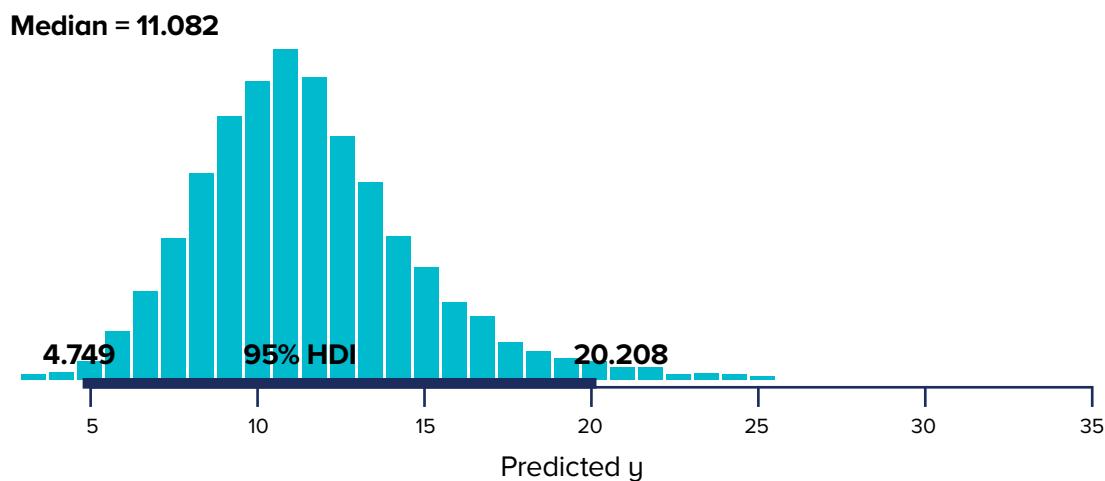
For our model, the priors used were based on the betas being normally distributed and the model error term being uniformly distributed. Table A4.1 shows the median, and lower and upper bounds to the estimated values of the parameters.

		95% credible interval	
	Median	Lower	Upper
Intercept	4.763	4.396	5.129
Ln (HE(FSM)%)	0.361	0.220	0.512
Ln (% migration)	0.225	0.145	0.302
Ln (% managers or professionals)	0.657	0.367	0.949
R²	0.605	0.526	0.683

The three charts below show the HDI ranges for the three scenarios set out in table 2.2, in which the variable “y” relates to predicted start-up rates per 1,000 population.

Base case – standard parameters

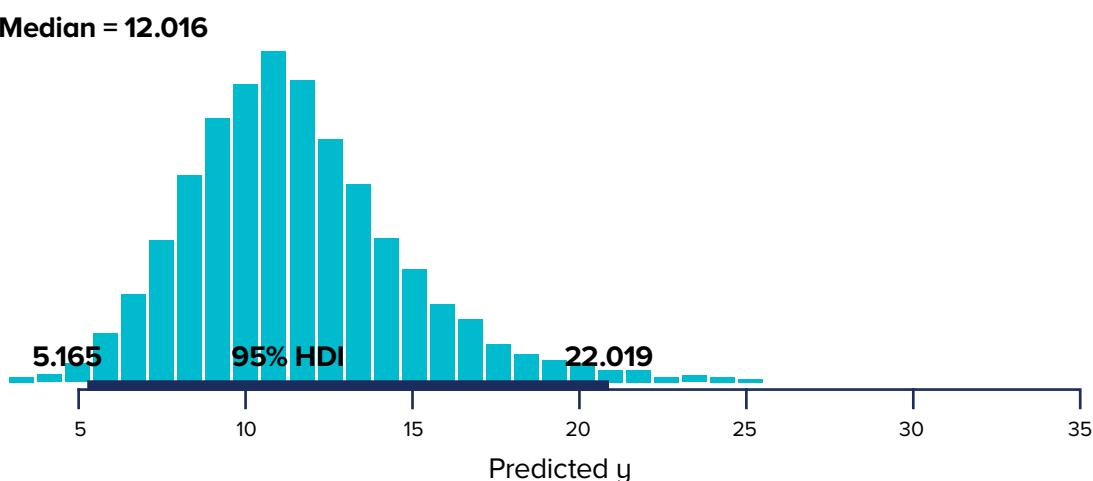
- HEFSM=22.6%
- Migration=1.3%
- Occupation=27.9%



Change in proportion of professional / management occupations

- HEFSM = 22.6%
- Migration = 1.3%
- Occupation = 31.6%

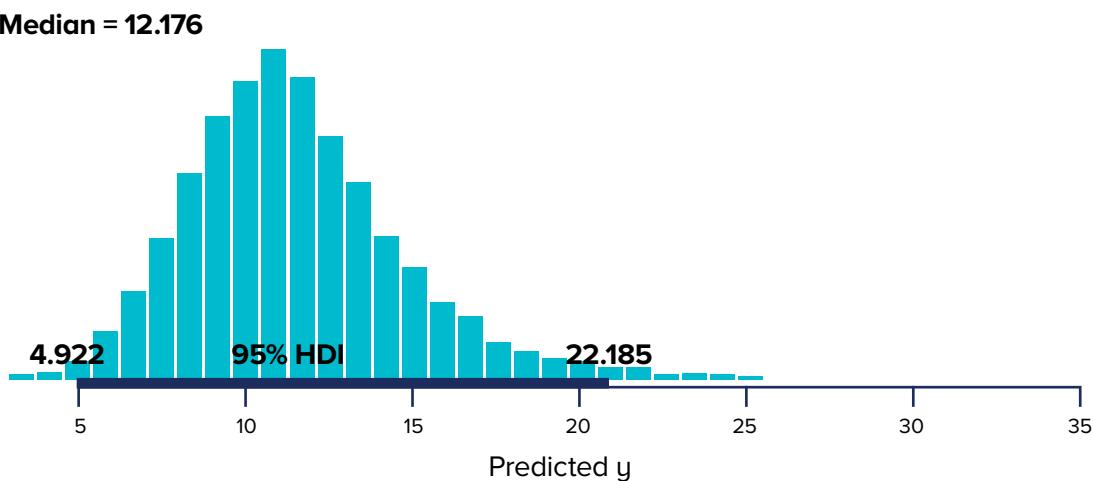
Median = 12.016



Change in proportion of international migrants

- HEFSM = 22.6%
- Migration = 1.92%
- Occupation = 27.9%

Median = 12.176





Annex 5: Alternative model specifications

To review the suitability of the model we examined different transformations of the data and models, as well as undertaking the Bayesian analysis outlined in Annex 4. The two alternative approaches were:

- a cross-check as to whether levels of Higher Education (for those with free school meal entitlement) represents a good proxy for social capital over and above that which would be expected given the local population's composition of social class;
- a check on the effect of goodness of fit of the model when the Higher Education variable is removed completely.

Cross-check on social capital effects over and above social class composition

This test involved:

- (a) calculating the difference between actual HE levels and expected HE levels given the proportion of the working population who are managers or professionals;
- (b) adapting scores for this residual to taking a value between 1.0 (for the maximum score) and 0.02 (for the minimum score)¹³ and
- (c) taking the log of this adapted score and using this as the relevant social capital variable.

The resulting equation was a slightly worse fit (R^2 is 0.58, adjusted R^2 of 0.57), and the coefficient on the adjusted HE variable was 0.293 (with a p-value less than 0.001, indicating a strong statistical significance). The closeness of this coefficient to that of the coefficient on the HE variable in the base model (0.319) may indicate that it is social capital effects that are indeed being picked up, over and above those that relate to social class.

Removing the Higher Education variable

Our hypothesis that social capital effects are significant is further confirmed by removing the %HE FSM variable from the original model. The R^2 value drops from 0.59 to 0.51, and an Analysis of Variance (ANOVA) test for comparison between the two models provides significant evidence in favour of the model include %HE FSM ($p<0.001$). It appears that the % HE FSM variable (or rather its natural logarithm) is providing substantial explanatory expertise beyond that of the simple percentage of managers or professionals.

¹³By subtracting the lowest residual (-26%), and then dividing by the range of scores (54%, since the highest residual is +28%). This process (or a similar adjustment), is required because it is not possible to take the logarithm of a negative number.

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