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Keep it in the community

The future of public spending is local, says **Stewart Wallis**

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Since the Gershon review of Whitehall and local government efficiency, managers have been under intense pressure to scale up, cut administration and buy big when it comes to procurement. But this may not be the way to achieve best value. Indeed, it makes sense economically, socially and environmentally to find local sources of expertise and goods wherever possible.

The growing body of evidence to support local procurement is backed by the results of a year-long collaboration between the New Economics Foundation (Nef) and the regeneration division of Northumberland county council. The council's research, using Nef's analysis of the way money circulates in the local economy, made it clear that buying from local companies keeps money local for longer.

Suppliers based in Northumberland re-spent on average 76% of their income locally, while suppliers from outside the county spent only 36% in the area. In short, each £1 spent with a local supplier was worth £1.76 to the local economy, and only 36p where it was spent out of the area, (because with the local supplier, the value of the initial contract is added).

On this basis, if councils across the UK made a 10% increase in the amount they spend locally, it could mean an additional £5.6bn re-circulating in local economies. This is a powerful tool for local authorities which need to target the benefits of spending on disadvantaged areas.

On the other hand, Gershon-style efficiencies of scale in procurement, particularly in regeneration areas, can lead to money haemorrhaging from a local area at an alarming rate. The Gershon mantra states that efficiency savings can then be reinvested in delivery of frontline services. But efficiency savings are much chased and rarely reached.

Sir Derek Wanless's review of NHS funding concludes that unless the health service switches focus from "illness" to "wellness" it faces bankruptcy. The same analysis could be applied to procurement spending in regeneration areas. Carefully targeted spending can fulfil the dual objectives of providing best value and meeting regeneration objectives.

Obsession with bureaucratic cost-cutting will leave hollow, disconnected communities, and the need for an ever-expanding sticking plaster to cover the damage.

Based on its initial analysis, Northumberland used the renewal of the council's food supply contracts to increase their local impact. In this case it shows that public spending can indeed enhance the public good.

More emphasis on local procurement for school meals, for example, could provide a welcome boost for small farmers, and environmentally there are clear benefits for land use and reduced transport costs.

Purchasing locally can switch food provision away from the power of the conventional food system into the hands of small-scale local producers who tend to concentrate on healthy, wholesome and high-quality produce.

Northumberland organised seminars that explained contract needs to small, local suppliers as well as those already supplying the council. They linked local businesses with local business support services and altered the specifications for the tender to level the playing field, allowing county-based firms to compete more easily.

The council found that stronger links with local suppliers strengthened community spirit - the "glue" that holds communities together and plays a key role in regeneration.

The result of the food contract tendering was a five-fold increase in local suppliers' expressions of interest, which resulted in four of seven product categories (meat, milk, bread, fruit and vegetables) being awarded to local suppliers - almost half the value of the county's £3m food procurement budget.

There was more administrative work involved, but council officers found that this was repaid by the quantity and quality of the tenders, and that invaluable community links were developed.

The benefits did not stop there, and the work has been a catalyst for other changes. A number of local producers have been encouraged to attain EU protected name status (a form of trademarking), and Alnwick Castle, a prominent local tourist attraction, has asked for advice on increasing its own local impact.

Confederation of British Industry leader Sir Digby Jones's snipe at local government for failing to meet efficiency targets seems particularly misplaced in the light of Northumberland's experience. Closer links with local business can deliver real value for their communities, far more effectively than by scaling up.

Positive local money flows are key to neighbourhood revival. That is why Nef has been putting so many resources into finding ways of measuring and boosting the flow of local money. Whichever way you look at it, the future of public spending is local.

• Stewart Wallis is executive director of the New Economics Foundation.

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