



Public Spending for Public Benefit

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Justin Sacks from nef (the new economics foundation) argues the potential for public bodies to use their purchasing power as a vehicle to strengthen local economic ties between businesses and people and help promote local regeneration.



Since the Gershon review of Whitehall and local government efficiency, contract managers have been under intense pressure to scale up, cut administration and buy big when it comes to procuring goods and services. But this may not be the way to achieve best value. Indeed, it makes more sense economically, socially and environmentally to address local problems using local solutions.

Before someone tells you that your community needs to build a massive new shopping development or promote tourism to attract spending into your area, think about what could be achieved with your community's share of the £125 billion that the public sector in the UK expects to spend procuring goods and services in the next year alone. Steering just 10 per cent more of this spending into the country's most disadvantaged areas would inject £12.5 billion of income into these communities in just one year - 15 times more than the £835 million UK government currently spends on designated regeneration programmes.

The question for many, until now, has been how to do it. Using nef's method of measuring the way that money flows in a local economy - Local Multiplier 3 (LM3) - a number of public bodies and businesses across the UK are proving why the way in which public bodies deliver goods and services makes all the difference. LM3 has helped communities make use of economic linkages: the flow of money between the businesses and people in the local economy to get real 'best value' from their procurement spending. Strengthening economic linkages can make a big difference to regenerating deprived areas.

Public spending strategies can deliver the goods and services a community needs and also achieve regeneration aims for two fundamental reasons. Firstly, developing local solutions to public service delivery keeps money circulating in the local economy for longer by fostering local economic linkages, which are critical to long-term regeneration. Secondly, the process of developing local solutions raises capacity and expertise of local people and enterprises, making them more competitive as a whole, and strengthening the community links essential to lasting regeneration.

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As many local authorities and other public bodies are discovering, these local solutions can save money and deliver truly efficient services. When explaining why the London Borough of Ealing awarded a massive waste and recycling contract to a company who appeared at the outset to be the underdog, Earl McKenzie, Head of Waste and Recycling explained, "The other tenders had strengths but did not stretch or innovate to the extent required by Ealing at a time of root and branch organisational change. ECT best demonstrated understanding of the integrated nature of the contract, which is not the traditional set of separates but is led by recycling and waste; ECT understands waste minimisation, which is what 60 per cent of the contract is really about."

We ignore the long-term impacts of short-term cuts in public expenditure at our peril. When it comes to public spending, we do in fact get what we pay for. What appears at the outset to cut costs can have expensive consequences. Sir Derek Wanless's review of the NHS made a clear connection between healthy economies and healthy people. The Wanless Review made a compelling economic case for a fundamental shift towards a health service that focuses on 'wellness' rather than 'illness', adding to the growing evidence base that shows the true economic impact of local community decline. Mental health problems, for example,

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are now estimated to cost the UK economy £77 billion a year through the costs of care, direct economic losses and premature death.

It is also clear that ensuring the viability of local economies now will yield benefits for years to come. Barry Mitchell of Northumberland County Council shares many people's concern over the decreasing choice in the market and the need to think long-term about the regional supply chain: "Working with regional suppliers can seem less important now because we do have choices. But if we don't work with regional suppliers now, they may not exist in a few years. And then we won't have any choices left." For Barry, even maintaining the current regional supply base in today's highly competitive environment is an important achievement.

Yet the reality is that different public bodies, and even different departments within public bodies, tend to guard separate budgets. Until public bodies have a stake in each other's spending, joined-up solutions will remain elusive. As the case studies included in public spending for public benefit show, the solutions are there where the will and determination exist to apply them. Yet, while local authorities are rewarded for how cheaply they obtain units of goods rather than the whole life costs of those goods, schools are rewarded on test scores rather than the well-being of their pupils, and hospitals measured on the speed at which patients pass through their doors rather than their long-term health, such solutions will remain the domain of the determined few.

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Tools like nef's LM3 are helping to give public bodies the additional evidence that they need to use their procurement spending to create public benefit. As nef's report shows, public bodies, from local authorities to schools to hospitals, are taking action now. And the results make sound economic sense. Northumberland County Council used LM3 to measure and improve the local economic impact of its £245 million procurement budget. Now, the North East Centre of Excellence hopes to replicate Northumberland's success over the entire region.

Promoting regeneration through public spending is possible and it doesn't have to cost more. As Public spending for public benefit shows, innovative public bodies providing everything from youth services to premises cleaning are already demonstrating how the public sector can promote regeneration through the delivery of public goods and services.

Justin Sacks has led the LM3 (Local Multiplier 3) programme at nef (the new economics foundation) since 2002. Justin has organised and led projects across the UK that challenge and improve how the public, private, and not-for-profit sectors use their purchasing power to reduce poverty. In addition to Public spending for public benefit, which came out in August 2005, Justin is the author of The Money Trail (2003), the how-to handbook for using the LM3 tool developed at nef.



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