

Creating resilient local economies:

apse

# exploring the economic footprint of public services



## About the organisations



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APSE (Association for Public Service Excellence) is a not for profit local government body working with over 300 councils throughout the UK. Promoting excellence in public services, APSE is the foremost specialist in local authority front line services, hosting a network for front line service providers in areas such as waste and refuse collection, parks and environmental services, leisure, school meals, cleaning, housing and building maintenance.



### **Centre for Local Economic Strategies (CLES)**

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## Foreword

The current Government believes that vibrant and successful local economies play a vital part in shaping the places where we live and work and that local authorities have an important role to play in ensuring the sustainability of local economies through the stewardship of their local areas. Indeed through the Local Government and Public Involvement in Health Act 2007 and the subsequent statutory guidance “Creating Strong, Safe and Prosperous Communities” (July 2008), a great emphasis is being placed on developing Sustainable Communities Strategies to set the overall strategic direction and long-term vision for the economic, social and environmental well-being of a local area.

The Government is now consulting in its draft legislative programme for 2008/09 on a Community Empowerment, Housing and Economic Regeneration Bill in which it is proposed to introduce a new economic duty on local authorities to assess local economic conditions and to work in partnership with other statutory and non-statutory bodies to improve the economic well-being of localities. This is potentially an important development in recognising the role of local authorities in the stewardship of their local economies.

APSE recognises the remarkable contribution that local authorities play both as a local economic actor themselves, but also in partnership with a range of other organisations in the private and third sectors in shaping local economic fortunes. Public spending can have a significant impact in nurturing, supporting and driving the local economy.

But it is even more important in turbulent economic times that the public sector provides an anchor upon which a resilient local economy can be founded in order to for instance, build local supply chains, create pathways into skills and training and provide a bulwark against the worst consequences of global economic forces.

This research represents an important contribution to our understanding of the role that the public economy can play in building resilient local economies and shows the value that a local authority commercial services department plays in terms of both its procurement and employment spend in maximising the effect of public spending in the local economy.

Understanding the impact of both procurement and employment spend on the local economy and having reliable baseline data can help shape procurement strategies and policies and local service configuration to ensure that the benefits of public spending to local economies and to the wider sub-regional economy are realised. It can also ensure that leakages from the local economy are reduced and that there is a virtuous cycle of spending that provides high quality employment, promotes local businesses and social enterprises and encourages investment and innovation.

I commend the research methodology and the findings as an exciting contribution to our wider understanding of the role of the public economy in creating local economic multipliers.

**Cllr Leon Unczur**

APSE National Chair



## Executive summary

It is increasingly being recognised that the role of the public economy and how and why local authorities spend their resources, is a critical component in building a sustainable future for communities. Public sector spend is significant in employment and procurement terms and therefore increasing our understanding of the best means of ensuring that this spend is maximised to develop local economies is of vital importance in ensuring the resilience of local places and providing wide opportunities for local people and businesses.

This report sets out how a local authority direct services department (Swindon Commercial Services) contributes through the totality of its spending in ensuring that there is a virtuous multiplier effect in terms of both the goods, works and services it procures and the impact of employment spending in the local economy. We use the local economic multiplier model (LM3) developed originally by the new economics foundation (nef) to measure the multiplier effect on the local economy of procurement and employment spend.

Uniquely we have been able to quantify the benefits of the public economy in terms of both its procurement and employment spend and to provide verifiable evidence of the virtuous impact of local authority services in local economies. In doing this we have not just produced another research report, but a vital tool and methodology which can be used by local authorities and their partners both to measure their local economic footprint and to shape their services and procurement policies for the future.

This work provides a means - via the accompanying method paper (**Appendix 1**) - by which we can move toward public service decisions which are based upon wider local economic resilience, effectiveness and strategic benefits. In this it enables strategic public sector decisions to be more sophisticated, as regards to considering the role of public services in local economic vitality.

### Key findings from the Swindon research

- £1.64 - For every pound invested in the Street Scene service area in Swindon, 64pence is reinvested in the local economy.
- 95.7% of employees of Swindon Commercial Services live within the local authority.
- 97% of employees of the Street Scene service area live within the local authority.
- These employees re-spend 52.5pence in every pound in the local economy.
- 32.4% of the Street Scene service areas expenditure upon suppliers goes to local companies and organisations.
- When National Organisations with a Local Branch are factored in, this figure rises to 51.3%.
- Local suppliers re-spend 30.8pence in every pound in the local economy.
- 45.7% of the Building Services service areas spend upon suppliers goes to local companies and organisations. This figure rises to 71.7% when National Organisations with a Local Branch are factored in.

## Our message

The essential message(s) that arise from the research can be summed up succinctly in terms of local authorities needing to 'SPEAK UP' about their role in the local economy. The key messages and policy findings of the research are as follows:

**S** **tabil**ity: **The public economy can stabilise local economic problems.** Global and local economies are having to increasingly adapt to rising prices and associated reductions in investment in localities, new business start ups and the economic decline of the housing market. The role of the public sector as a sustainable local employer and as a local economic player is taking on added significance.

**P** **unch:** **The public economy is a source of strength to the wider economy.** The public economy offers us a powerful punch to dealing with some of the longstanding social issues such as worklessness and ensures greater levels of local economic and environmental stability and resilience in the future. Furthermore, in many places where there is an impoverished commercial economy and market failure, it is the bulwark for the economy of the locality. It also, through its spending power and punch, assists the development of the private and third sectors.

**E** **fficiency** **The public economy can drive efficiency AND effectiveness.** Government thinking suggests that market led approaches to service delivery provide greater efficiencies in cost terms, yet service delivery is about far more than raw cost and efficiency. Public sector service delivery models are increasingly required to demonstrate, transparency, high levels of accountability, quality and wider social return on investment and it is potentially the public sector itself which is best placed to demonstrate and act on this wider effectiveness.

**A** **ccountability:** **The public economy is accountable and proven.** Rather than assigning local government as enablers, commissioners and managers, local government and direct service provision should be seen as important shapers of place and economic success. Of course it is the preserve of directly elected and accountable local government to make its own decisions as to which mode of service provision is right for them. However, this research has found that through direct service provision there is a tried and tested means by which to secure a good local economic return on public investment at the local level.

**K** **ey supply chains:** **Public sector spend promotes local supply chains and local multipliers.** The primary research activity in Swindon of a direct public service delivery model found extremely strong local employment patterns and a relatively strong local supplier pattern, suggesting that circulation of expenditure is strong. 95.7% of employees of Swindon Commercial Services employees lived locally within the local authority boundary. 32.4% of expenditure upon suppliers went to local suppliers. Local Swindon Commercial Services employees re-spent 52.5pence in every pound in the local economy, whilst local suppliers re-spent 30.8pence. Indeed, for every £1 invested in Street Scene services in Swindon, 64p is reinvested in the local economy. This is the core and significant result of the research. By investing in the local economy local authorities can prevent 'leakages' whereby public spending seeps out of local areas through contracts, remote supply chains, non-local profits and dividends and activities and functions provided at a distance from the area they relate to.

**U** **ndervalued:** **The public economy is undervalued and poorly understood, as a fundamental facet of creating local economic resilience and creating local successful places.** Thus, any decision making process and judgement needs to be informed by how public service delivery can assist in developing the local economy, via maximising the use of spend and reducing unnecessary leakage from the local economy.

**P** **ower:** **The public economy is an underappreciated source of local government economic power.** Whilst subject to central government and variations in the market, public sector spend is under the influence and direction of local government and other public sector providers. Therefore in creating local resilient economies, the public economy is the key source of local government economic power, as local government, has influence via the various services it delivers and oversees, through procurement, supply chains, recruitment, training and employment practices.

## The policy recommendations

In order to maximise the economic benefit of local government spending power via its service delivery activities, we believe that local and central government need to take account of the following:

**Start using this methodology.** Local government needs to ensure that it utilises this and similar methodologies, to ensure that they understand how their local economy works and therefore make decisions which major on resilience. As indicated in the Sub National Review of Economic Development and Regeneration, as regards future local economic analysis and assessment, a methodology such as this is invaluable.

**Economic footprint of public sector spend is a key component of local power.** Within the aspiration role of local authorities, as outlined in the Lyons Inquiry (March 2007), the Local Government and Public Involvement in Health Act (October 2007) and more recently in the Empowerment White Paper (July 2008), Welfare reform Green paper (July 2008) and the Regeneration Framework (July 2008), we believe that the public economy and decisions around public services is and should increasingly be seen as a key facet of local economic competency. This serves to increase the ability of local authorities to act as place 'stewards' of the local economy.

**Service delivery decisions are about effectiveness and not just efficiency.** Decisions over mode of service delivery need to consider not just cost efficiency and value for money but move towards considerations of wider economic effectiveness and resilience, including the economic multiplier, and also community social and environmental benefit.

**The local economy and the economic footprint matters.** The debate and policy decisions around the improvement of public services, must increasingly take local economic benefits into greater consideration. We suggest that all scales of government start considering the local economic effect of public sector spend in its decision making and in this consider the following questions:

1. Is there solid capacity over level of service influence, thus retaining strategic overview and the maintenance of effective decision making?
2. Does clarity and direct local accountability exist over service provision?
3. Are local economic considerations and benefits being woven into service delivery and evidenced?
4. Is there good local strategic skills development?
5. Is there a wider view of value for money effectiveness in service delivery decision-making?
6. Will local service delivery foster positive local employment opportunities and assist with worklessness issues.

## About the wider research programme

In the headlong rush towards commissioning, market principles have been applied unquestioningly, citizens transformed into consumers, and consideration of the value of directly delivered public services has become an irrelevance – if not an out and out taboo. What matters is what works, right?

But as economic, environmental and social instability loom, cracks in prevailing wisdom grow increasingly apparent. The question of what can no longer be divorced from the question of whom. It is time for policy-makers to take a serious look at the broad-scale benefits that directly employed staff delivering public services can bring.

The Association for Public Service Excellence (APSE) embarked upon an extensive research programme a year ago to examine the 'public value' of direct employment in local government. The three studies we have produced as a result – in partnership with the Institute of Local Government Studies and the Centre for Local Economic Strategies – measure the impact of council services in terms of social and environmental sustainability, democratic accountability and economic development. Together, they provide compelling evidence of the knock-on impact every public pound can have when spent effectively on directly delivered services.

Our research includes examples from councils such as; Newcastle, where strong civic leadership helped the city reinvent itself after the collapse of traditional industry; Caerphilly, which wields tremendous spending power as the tenth largest employer in Wales; and Swindon, where every pound earned by staff in the in-house street services team generates £1.64 in the local economy.

The shift from direct provision to a commissioning role for local government has meant services have become fragmented whereas policy and pragmatism demand a holistic approach. The first report in our programme, *Towards a Future for Public Employment*, demonstrated ways in which direct employment contributes to councils' strategic priorities, such as tackling climate change, meeting efficiency targets and providing community leadership.

The research showed how direct employment reduces management costs and adapts flexibly to changing environmental, social and demographic demands – rather than tying councils into long-term contractual arrangements. Public employment sets a benchmark for staff terms and conditions and meets local training and skills needs. Services delivered by council staff also have an obvious line of accountability between managers in the town hall, local people and councillors – via the ballot box.

Attempts to devolve power to communities have proved ineffectual so far precisely because they have failed to make the connection between local democracy and delivery of services. *Governance Neighbourhoods and Service Delivery*, the second report in our series, maps links between democracy and delivery and shows how the priorities of a particular neighbourhood may conflict with wider corporate goals. The report's analysis of different council models reveals that maintaining an operational core of directly provided services enables vital links between local government strategy, accountability and responsiveness at neighbourhood level to be forged.

Council workers don't just sweep the streets, empty the bins and care for elderly and vulnerable people on a daily basis. They are the eyes and ears of local communities and usually live in those communities. That is why Swindon's in-house street services staff were asked to keep a diary of their spending for the final, in-depth phase of APSE's research.

Almost 96% of the Swindon team live in postcodes near the town hall, and spend their money locally. The final report in our programme, *Creating Resilient Local Economies: Exploring the Economic Footprint of Public Services*, launched on 11<sup>th</sup> September at

APSE's annual conference, uses 'multiplier' methodology to map the impact of council cash on local supply chains. It shows that absence of private shareholders, favourable employment terms, conditions and opportunities for staff and sustainable procurement practices all mean that as little money as possible leaks out of the locality. For every £1 earned by Swindon's in-house team, an extra 64p is generated in the local economy.

If anyone wants to put a figure on the public value of direct employment, that £1.64 is it. And local economic resilience will become more significant as the global economy contracts. But the public sector is the glue that holds communities together and, as such, services it delivers directly offer a public value that goes beyond tangible measures.

No-one is suggesting that direct employment is a virtuous objective in its own right. We are certainly not advocating a return to an age of monolithic public sector provision, which is usually unfairly characterised as inflexible, inefficient and offering jobs for life for tea-swilling bureaucrats at the taxpayers' expense.

Public service reform has resulted efficiency savings in English councils alone totalling £3.2bn over the past four years, user-focused performance indicators and hi-tech services that are available 24/7. Local Area Agreements are bringing public sector players together locally with pooled budgets and shared targets. The Community Empowerment White Paper now seeks to put local residents at the heart of decision-making. This progress should be celebrated and built upon.

But our research throws down the gauntlet to policy-makers, practitioners and academics to join us in a realistic debate about the future of public services that includes consideration of the public value that direct employment can bring.

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