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LM<sup>3</sup>

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Information and updates for the LM3 project



## Introducing the LM<sup>3</sup> project

**Public and Private Sectors  
Embrace LM3**

**Prince's Trust proves to be a jewel  
in the north east crown**

# Introducing the LM<sup>3</sup> project

Barry Mitchell, North East Centre of Excellence LM3 Project Manager

**At the North East Centre of Excellence (NECE) we have quietly and very efficiently during the past 2 years, been undertaking a series of in depth case histories with organisations in the public and private sectors to demonstrate the impact they have on their local economies and how they can better support and develop local supply chains.**

If local authorities within the North East made just a 10% increase in the amount they spend locally that could mean an additional £312 million re-circulating in the regional economy.

That is a staggering figure and is exactly the reason why the North East Chamber of Commerce launched the Buy North East Campaign.

We have utilised LM3, a tool developed by the New Economics Foundation to identify how money circulates in the local economy and build on work initiated by Northumberland County Council. It is based on the premise that the problem is not necessarily that too little money flows into a neighbourhood, but rather it is what consumers, public services and businesses do with that money that really counts. Too often it is spent on services with no local presence and so immediately leaves the area.

The measuring process follows how an organisation's turnover is spent and then re-spent within a defined geographic area. The foundation principle is that money that enters an economy has a multiplied impact on that economy based on the way people spend and re-spend money. More re-spending in the local economy means a higher multiplier effect because more income is generated.

The LM3 project's predominant aim was to generate baseline LM3 measures for each of the 25 local authorities within the North East so that it could be used to complement the regional procurement spend analysis.

In the medium and long-term, this model enables councils to:

- Assess the true value, both positive and negative, of local authority spending across the North East
- Engage within the council (different departments) and across councils on using public spending power more effectively
- Identify targets to improve the efficiency of that spending against regeneration and community development agendas
- Improve Comprehensive Performance Assessment across the region in the areas of value for money, and impact within their communities.

NECE and One NorthEast funded LM3 regionally from 2006, with the model also being used in the private and Not-for-Profit sectors. Those organisations that participated included – Rio Tinto Alcan, Alnwick Garden, One NorthEast, Hartlepool Partnership and the Princes Trust.

During the past two years the Project has analysed the spending patterns of ~16,000 contractors and has also encouraged some of the region's biggest private sector employers such as Rio Tinto Alcan to assess their value to the region.

A study revealed that Rio Tinto Alcan has contributed £118 million in the previous year to the regional economy. An impressive figure! The calculation assessed staff salaries and commercial contracts placed with the supply chain, and also ascertained what level of expenditure is spent in the region by staff and suppliers.

We have also had great success with other organisations such as Alnwick Gardens, which now continually reassesses its local supply chain strategy after highlighting its impact with local suppliers through its trading arm and visitor data and provided an indication of return on investment for total funding, some of which is provided by the Regional Development Agency One NorthEast.



The analysis showed that total income generated directly for the local economy of Northumberland was £6.9 million per annum and for the North East £8.9 million. This breaks down as follows. Each £1.00 spent within the North East results in the circulation of £1.80 in the regional economy. This contrasts with spend outside of the region which results in only £0.21 in the regional economy.

However taking into account the impact of visitor additional spend generates regionally in total £20.4 million annually.

The Alnwick Garden Fundraising Manager, Elaine Inglis said: "We found this report extremely insightful and really useful in thinking about how and where money is spent. The fact that



If local authorities within the North East made just a 10% increase in the amount they spend locally that could mean an additional £312 million re-circulating in the regional economy.



it clearly shows the impact of sourcing local suppliers and in doing so, the huge financial benefits this simple option brings to both the local and regional economy. We are delighted to see that the development of The Alnwick Garden has brought increased revenue to local businesses and has helped to generate new business opportunities which might not have been apparent without the garden".

To reach the young people who need help, The Prince's Trust relies entirely on donations and although in its 31st year, the charity is still growing and looks increasingly to donations. LM3 results show that the funding support and contributions to The Princes Trust (North East) generated £4.1 million per annum within the North East regional economy. The evaluation of the multiplier effect within the region shows that one pound donated actually generates an additional £1.16 within the regional economy and in total £2.16, an increase in the regional economy of 116% on the £1 donated.

In conclusion, I would have little hesitation recommending that any public or private sector body truly committed to doing its very best for the region and its people should implement the LM3 model. Some might be pleasantly surprised as to how strong their contribution to the regional economy actually is, while for others it might provide the impetus to try things differently.

## LM<sup>3</sup> Successes

- All 25 local authorities within the North East, with South Tyneside MBC being the pilot, have completed benchmarking exercises including data models and reports incorporating recommendations including changes to local authority procurement strategy and processes enabling opportunities for increased local spend.
- Work with Rio Tinto Alcan has culminated with a report and results model, with establishment of their annual worth to the local community and a continuing policy by this major supplier of increasing this contribution.
- Project support on LM3 applications have contributed to Local Enterprise Growth Initiative bids for South Tyneside, Redcar and Cleveland and Wansbeck local authorities. For example, the Wansbeck LEGI programmes are focusing on local capacity and capability via their Procurement Centre Initiative.
- Concluded recent work with The Alnwick Garden a very large charitable organization and highlighted its impact with local suppliers through its trading arm and visitor data and provided an indication of return on investment for total funding some of which is provided by the RDA.
- Completed an LM3 benchmarking with reports and results models for One NorthEast relating to independent assessments of specific projects and also direct spend.
- Completing LM3 exercises for key members of the Hartlepool Partnership comprising North Tees and Hartlepool NHS Trust, Hartlepool PCT, Housing Hartlepool and Hartlepool Borough Council.
- Completed an LM3 benchmarking with reports and model results for The Princes Trust to obtain an indication of the Trusts spend on the regional economy using payments in relation to grants, development awards and payroll.
- Significant regional economic data has been provided by the Project to both NECE and the RDA with data models produced on a regional and sub regional basis
- An anonymous regional comparator report has been developed showing individual local authority data results with regional averages and percentages.
- LM3 has been quoted as an exemplar study by Sir Neville Simms within the 2006 Sustainable Procurement National action plan.

# Prince's Trust proves to be a jewel in the north east crown

**Youth charity The Prince's Trust has conducted a groundbreaking study that shows the impact of its £1.9 million spend in 2007 on the regional economy.**

The findings will be used to demonstrate and increase the benefit that accrues to the regional economy and to suggest how this could be applied more widely as an exemplar for the use of funders.

The Princes Trust (North East) in partnership with the North East Centre of Excellence and One NorthEast, undertook a benchmarking exercise to obtain an indication of the impact of the Trust's spend on the regional economy using a Local Multiplier 3 (LM3) methodology developed by the New Economics Foundation (NEF).

The Prince's Trust helps change young lives. It gives practical and financial support, developing key workplace skills such as confidence and motivation. It works with 14 to 30-year-olds who have struggled at school, have been in care, are long-term unemployed or have been in trouble with the law.

Last year The Trust supported almost 4,000 young people in the North East, with programmes offering financial business start up assistance and personal development opportunities that bring tangible and lasting benefits to both the young people it supports and the communities in which they live.

Nationally, The Trust supported over 38,000 young people in 2007 - 76% of which went on to get a job, start a business or embark on further education or training. The Trust continues to deliver impressive results supporting 100 more young people every working day

To reach the young people who need help, The Prince's Trust relies entirely on donations however, with an estimated 40,000 more young people in the region who could benefit from support, the charity is still growing and looks increasingly to donations.

The Trust wanted to demonstrate the full impact of its £1.9m annual spend in the North East and asked the North East Centre of Excellence to conduct a study using the LM3 multiplier so as to assess its contribution within the regional economy and to disseminate this to current and future funders. It was also felt that the study would be of immense



**Prince's Trust**

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interest to a variety of partners not least the Regional Development Agency, One NorthEast.

Caroline Richards from The Princes Trust, said: "We are delighted to have been involved with this LM3 study and feel that the outcomes demonstrate the tangible value of our work, showing just how far money donated to us by funders and supporters goes to making a real difference to the region." The measuring process follows how an organisation's turnover is spent and then re-spent within a defined geographic area. The foundation principle is that money that enters an economy has a multiplied impact on that economy based on the way people spend and re-spend money. More re-spending in the local economy means a higher multiplier effect because more income is generated.

The results indicate that the funding support and contributions to The Princes Trust (North East) of £1.9 million for 2006/7 generated £4.1 million per annum within the North East regional economy via the impact of grant funding, development awards, supplier spend and expenditure on staff salaries.

The evaluation of the multiplier effect within the region supported by both supplier and staff surveys shows that one pound donated actually generates an additional £1.16 within the regional economy and in total £2.16. This is an increase in the regional economy of 116% on the £1 donated.

Barry Mitchell from the North East Centre of Excellence, said: "The LM3 model is not difficult to implement and can be applied to any organisation be they in the public and private sectors or, as with The Prince's Trust, if it is not-for profit.

"In the private sector we have worked with global businesses such as Rio Tinto Alcan who wanted to understand its contribution to the regional economy - which stands at a staggering £118 million annually - while in the public sector we have worked with 25 local authorities in the North East - evaluating local and regional spends on goods and services and LEGI successes with Redcar and Cleveland, Wansbeck and South Tyneside."

## Public and Private Sectors Embrace LM<sup>3</sup>

**The 2 year span of the LM3 Project has seen a significant increase in delivery of outputs and outcomes compared to the original scope.**

The aim was to equip councils in the North East with an effective tool to deliver practical results to inform strategic decision making with the objective of assessing and improving the impact of their spend on the local economy. It would enhance opportunities for small local suppliers using a variety of initiatives to create a level playing field within the marketplace.

This need was made more acute due to decreasing regeneration budgets alongside budget cuts and LM3 was quoted as an exemplar study by Sir Neville Simms within the 2006 Sustainable Procurement National Action Plan.

Initially, all 25 North East Local Authorities were invited to participate with an expectation that perhaps only 50% would be interested. All 25 have now completed an LM3 exercise as they recognised that public sector procurement spend can have significant economic impact within local communities, with the project encouraging close liaison between both Procurement and Economic Development functions.

The awareness of this project and the impact that business spend on goods and services can make to local communities, especially deprived areas has expanded to other organisations within the public sector such as the NHS, housing agencies and private and not-for-profit sectors which have also recognised the benefits and value of applying 'Local Multiplier Three'.

Working with Rio Tinto Alcan, a large private sector company, has culminated in a report which showed their annual worth to the local community and continuing support by this major supplier of increasing their local contribution. This has gained much publicity and the attention of the Secretary of State, Department for Business, Enterprise and Regulatory Reform.

Both Alnwick Garden and the Princes Trust have gained valuable insight to their impacts on local communities, concluding in formal reports and presentations being disseminated to both current and potential funders.

Not least, contributions by the project to Local Enterprise Growth (LEGI) bids by local authorities to central government have resulted in significant success and brought millions of pounds to the region some of which will be focused on LM3 'initiatives' to further increase opportunities for small local suppliers to win business and help in regenerating our local and regional communities.

## Proud to be a sponsor

**Louise Kempton, One NorthEast**

One NorthEast has been the proud sponsor of the LM3 project for the past four years and in partnership with the North East Centre of Excellence for two. There has been some very interesting work done during this time and it has been rewarding to see that the public, private and third sectors have all taken part. The findings have been revealing and will no doubt help the participants as they focus on their future strategies.

LM3 was developed with the intention of giving people a simple and understandable way to measure their economic impact. This came from a desire to get people thinking about local money flows and how to improve an organisation's (whether public, private or third sector) local economic impact. It was designed to be quick and relatively easy, and to highlight where an organisation can improve its impact.

We can confirm that those organisations that have come forward are most keen to understand how they contribute to the region and, most importantly, how they can improve. They do it for a number of reasons, some altruistic, some commercial but, without fail, they all want to contribute to the region as a whole and the locality in which they are based.

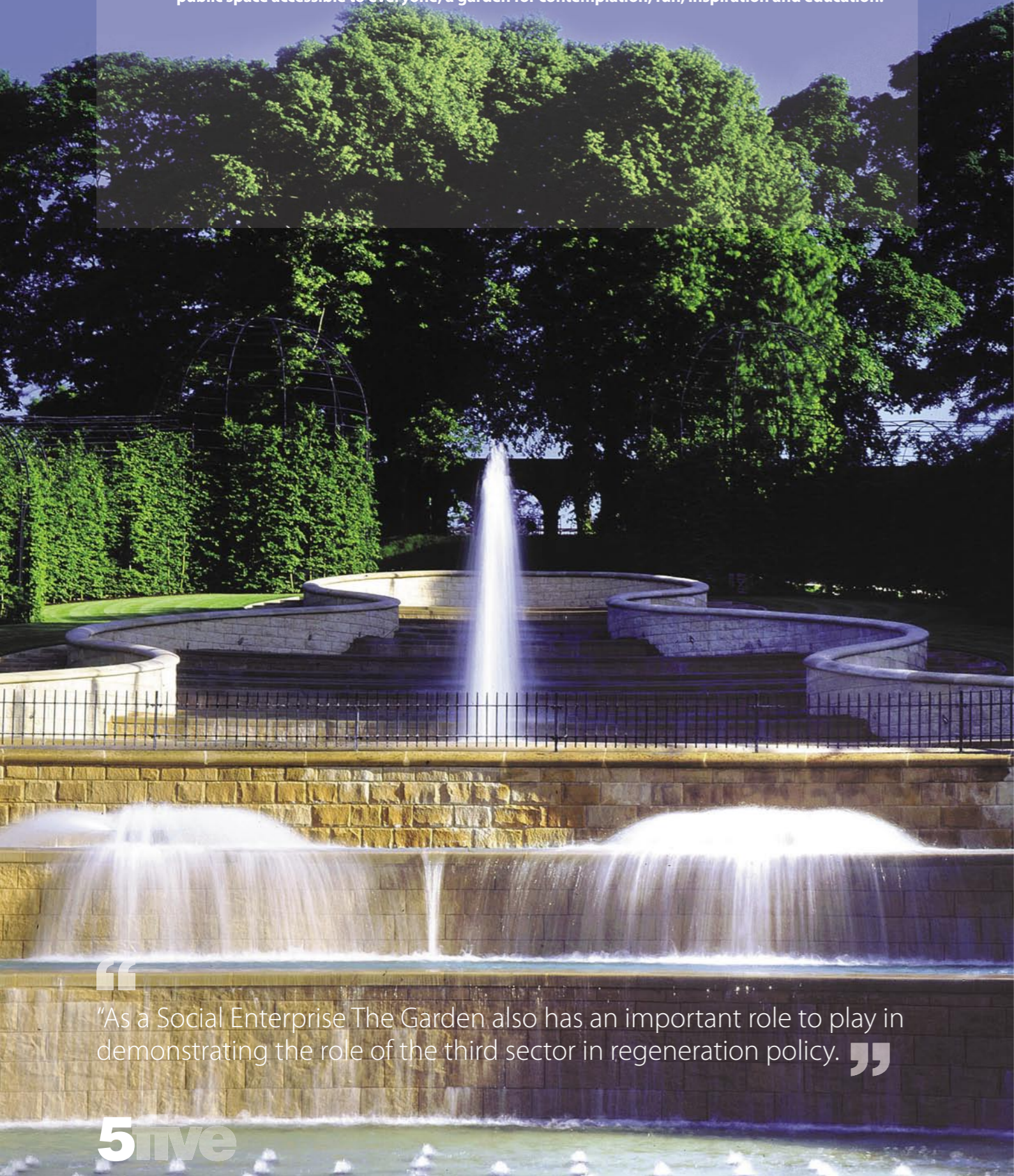
The LM3 project has also been operating at a time when The North East Chamber of Commerce has launched the Buy North East campaign, which encourages a greater level of local procurement by the public sector. LM3 adds weight to the growing body of evidence that even the smallest increase in the use of local suppliers can have a dramatic impact on the North East economy.



Regional Development Agency

# The Alnwick Garden

The Alnwick Garden in Northumberland is one of the most exciting contemporary gardens to be developed in the last century. The Duchess of Northumberland's vision was to create a beautiful public space accessible to everyone; a garden for contemplation, fun, inspiration and education.



“As a Social Enterprise The Garden also has an important role to play in demonstrating the role of the third sector in regeneration policy.”

(left to right) Julie Davison of Northumberland County Council, Ian August of The Alnwick Garden, Barry Mitchell NECE LM3 project manager, Jackie Maxwell of Doddington Dairy Ltd, Nr Wooler which has a partnership agreement with The Alnwick Garden to supply ice creams and Susan Tiffin NECE LM3 assistant project manager.



It was officially opened in 2002 by its patron HRH The Prince of Wales, as the first phase of the development was complete.

Most importantly, The Garden, which has a turnover of £4 million, is contributing to the regeneration of the rural community as tourism takes on a new level of importance. This is achieved through the people that it employs directly, the increased numbers of visitors and tourists visiting Northumberland and by the commercial benefits to local suppliers and producers who trade with The Garden.

The Alnwick Garden was particularly keen to understand how all its commercial activities impacted on the locality. The aim being to use this information to actively increase the benefit that accrues to the regional and local economy.

There is a strong relationship and partnering between the management bodies of The Alnwick Garden and Northumberland County Council. In conjunction with the North East Centre of Excellence, the County Council in 2004 initiated a project called LM3, its aim being to assess actual and potential benefits to a local economy from public sector procurement.

The measuring process follows how an organisation's turnover is spent and then re-spent within a defined geographic area. The foundation principle is that money that enters an economy has a multiplied impact on that economy

based on the way people spend and re-spend money. More re-spending in the local economy means a higher multiplier effect because more income is generated.

It was decided to apply the LM3 model to The Garden. Barry Mitchell, of the North East Centre of Excellence, said: "The investment in The Garden by the RDA and other sub-regional funders is a key part of their regeneration policies in delivering more sustainable and prosperous communities and contributing to an enterprise and business start environment.

"As a Social Enterprise The Garden also has an important role to play in demonstrating the role of the third sector in regeneration policy. For all of these reasons, it is crucial for both The Garden and its funders to be able to produce objective evidence of the efficacy of those investments, not just for their organisation but for the community and region in which it sits."

The objectives of the research were to

- Establish the impact of The Garden's procurement spend on the local economy by the calculation of an indicative benchmark
- Establish the impact on The Garden's procurement spend in the north east
- Activate the model to allow The Garden to gauge how a change in the value of local spend would impact on the local economy
- Provide an insight into the economic return for public funds to the region and the local economy

The methodology used to make the Assessment was based on salaries to staff and how/where they spent the money, and payments to suppliers and how they subsequently spent.

Using the LM3 model, the local multiplier for The Garden is 1.85. This means that for every £1 of income generated by The Garden results in the circulation of £1.85 within the local economy, an additional 85p.

The overall analysis shows that total income generated directly for the local economy of Northumberland from The Garden's activity was £6.9 million per annum.

The Alnwick Garden Fundraising Manager, Elaine Inglis said: "We found this report extremely insightful and really useful in thinking about how and where money is spent.

"It clearly shows how relatively easy it is to source local suppliers and in doing so, the huge financial benefits this simple option brings to both the local and regional economy.

"We are delighted to see that the development of The Alnwick Garden has brought increased revenue to local businesses and has helped to generate new business opportunities which might not have been apparent without The Garden".

Hartlepool Borough Council:

The economic benefit of providing targeted recruitment and training in the construction sector.

# Case Study: Housing Hartlepool

In 2007 Hartlepool Borough Council approved the adoption of a Charter which enabled the council to incorporate targeted recruitment and training into the core requirements when procuring works and services.

Hartlepool Borough Council had conducted an LM3 exercise in early 2007 and this had encouraged the LM3 participation of other public sector partners within the Hartlepool Partnership. These were Housing Hartlepool and both the Hartlepool PCT and the North Tees and Hartlepool NHS Trust.

The adoption of the Charter was an initiative being part of Hartlepool's overall Community Strategy and sought to ensure that major projects in the operating area of the Borough of Hartlepool were able to access a skilled and motivated local workforce.

It was also part of a wider regional employment model, referred to as the Construction Employment Integrator (CEI), which is designed to use procurement processes and planning to effect change and engage with employers and contractors to ensure that recruitment and training is demand led.

As a direct consequence of the Charter, an alliance was formed between Hartlepool Borough Council, Housing Hartlepool, Gus Robinson Developments and Wates Construction, operating within the defined boundaries of the Borough of Hartlepool and the public agencies that provide recruitment and training services.

Both Gus Robinson Developments and Wates Construction as major contractors and employers were highly involved in the LM3 exercise conducted by Housing Hartlepool.

The founder members of the alliance invited other developers, contractors and major employers to join them in seeking to achieve the following aims:

- meeting the workforce needs of local contractors and other major employers from local sources;
- ensuring that all school-leavers and non-employed people

obtain sufficient training and employment to enter the local labour market;

- ensuring that all contractors, subcontractors and major employers implement good equal opportunities procedures, especially in recruitment; and
- providing information that demonstrates the benefits that major developments can have for local employment and the local economy.

These aims were consistent with part 1 of the Local Government Act 2000 which gives Local Authorities powers to take any steps which they consider are likely to promote "the well being of their area", and the requirements of Section 71(1) of the Race Relations (Amendment) Act 2000 which places a general duty on public authorities to promote equality of opportunity.

The partners to this alliance agreed on a series of recruitment and training and outcomes: -

- A minimum of 60 apprentices to be employed by the Partnership over the contract period.
- A minimum of 60 people to be re-skilled and employed by the Partnership over the period of the contract.
- A minimum of 60 people to be employed by the Partnership who have been unemployed for at least 6 months, including people who first take advantage of training opportunities under sub-clause 2 above.
- 100% of vacancies to be referred to the Hartlepool Working Solutions Team, Economic Development, Hartlepool Borough Council, with potential applicants given a reasonable time to apply before the selection process commences.

In the period of the contract and to March 2008, a total of 120 people have been employed from the targeted communities, strengthening the local economy and local businesses.

The economic benefits deriving from operation of the agreement were calculated as in excess of £1.3 million annually.

