

Local Economic Impact Local Multiplier 3 (LM3) analysis

**Economy and Environment Overview and
Scrutiny Panel**

30 September 2015

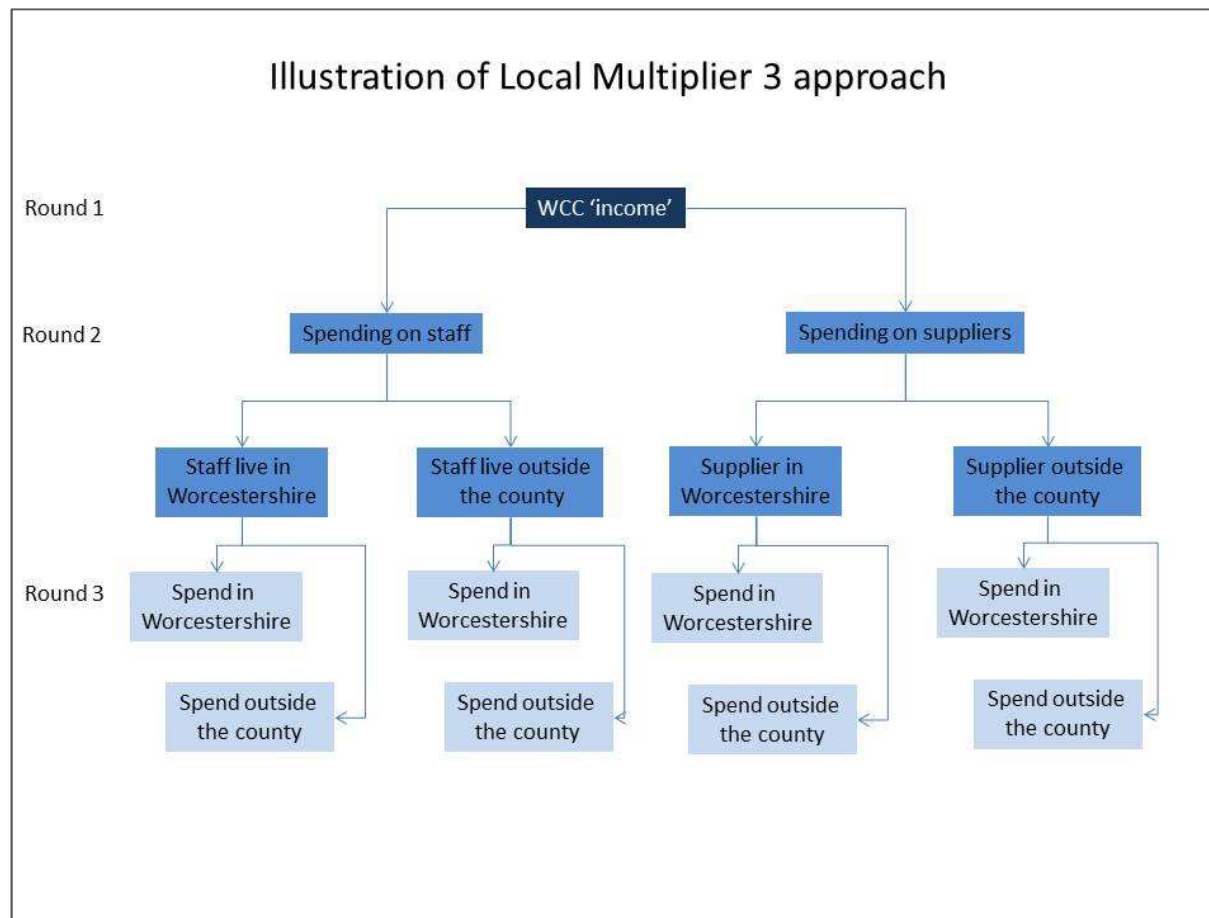
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Background

- Council spends significant sums on services
- Local Multiplier approach is a simple and understandable way of measuring local economic impact of that spending
 - Considers flow of money into and around an area
 - Developed by the New Economics Foundation
- Initial analysis of 2013/14 data presented to the Open for Board in March 2015 – subsequently updated using 2014/15 data (presented here)
- Uses Finance and Human Resources data, plus evidence gathered from supplier and staff engagement

Local Multiplier 3 - Approach



Round 1:
Starts with 'income' of WCC (money available to be spent)

Round 2:
Identifies how this money is spent, and how much is local/ non-local

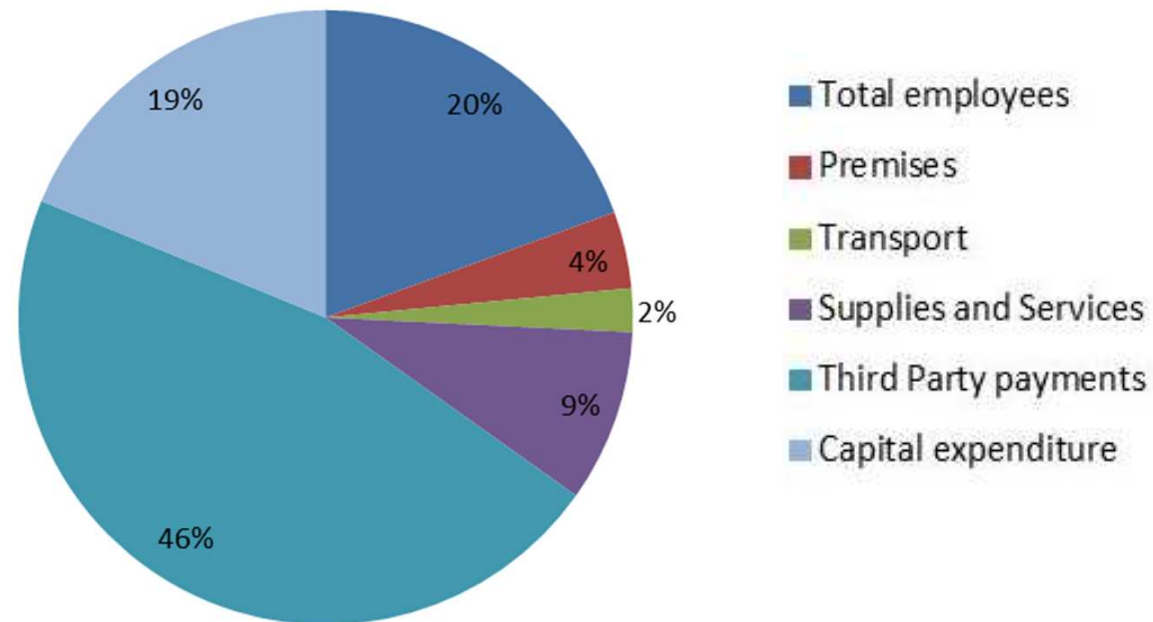
Round 3:
Identifies how suppliers and staff spend their money, and how much is local/ non-local

Local Multiplier 3 – Round 1

- County Council 'income' = £644.5m
- Figure includes:
 - spending of Worcestershire County Council activities
 - spending on major school capital projects where the Council hold the funding
 - schools support within WCC e.g. Learning and Achievement
- Excludes:
 - spend devolved to schools from the Dedicated Schools Grant
 - each school spends this on operating the school (i.e. staff, building costs, other running costs)
 - Schools Devolved Capital (minor projects)
- Increase of £51,870 on 2013/14 expenditure
 - Largely due to increased capital expenditure
 - e.g. Energy from Waste, Highways schemes, Malvern Hills Science Park etc...

Local Multiplier 3 - Round 1

WCC total non-schools expenditure,
2014/15



Total: £644.5 million

Local Multiplier 3 - Round 2

- Finance and HR data used to identify local/ non-local spend by category

| Category | Total expenditure £m | Local expenditure £m | % local |
|--|----------------------|----------------------|-------------|
| Total employees* | 125.3 | 54.7 | 43.7 |
| Transport | 14.7 | 11.8 | 80.3 |
| Premises | 26.0 | 281.2 | 73.4 |
| Supplies, services, third party payments | 357.2 | | |
| Capital Expenditure | 121.2 | 79.3 | 65.4 |
| Total | 644.5 | 427.0 | 66.3 |

Almost £55m went to employees who live in Worcestershire as take-home pay – this is 44% of the total spending on employees

66% of WCC spending goes to staff or businesses within Worcestershire

* Of the £125m total spend on employees £35m is employer National Insurance and pension contributions and is considered non-local, and £21m is employee tax and deductions which are considered non-local - the remaining £69m, is paid to staff, of which 80% goes to staff who live in Worcestershire

Local Multiplier 3 - Round 3

- Staff and suppliers were surveyed regarding where money received from Worcestershire County Council is spent
 - 42 staff and 80 suppliers responded
- Local staff and local suppliers spend more in Worcestershire

| Category | Total expenditure (from Round 2) £m | Local expenditure £m | % local |
|--|-------------------------------------|----------------------|-----------|
| Staff resident in Worcestershire | 54.7 | 29.0 | 53 |
| Staff not resident in Worcestershire | 14.0 | 3.6 | 26 |
| Worcestershire based suppliers/providers | 372.3 | 246.8 | 66 |
| Non-Worcestershire based suppliers/providers | 146.9 | 15.3 | 10 |
| Total | 587.9 | 294.8 | 50 |

Staff living in Worcestershire indicated they spend 53% of their income in the county, compared to 26% for non-Worcestershire-based staff

Local Multiplier 3 - Indicator

- **LM3 indicator = $\frac{\text{round 1} + \text{round 2} + \text{round 3}}{\text{round 1}}$**

Theoretical maximum LM3 value = 3.0 (if all spending stayed local)

Realistic maximum upper limit = 2.5

- **LM3 indicator = $(644.5 + 427.0 + 294.8)/644.5 = 2.12$**
- Every £1 spent by Worcestershire County Council contributes a total of £2.12 to the county's economy
- Total amount of money in the local economy from the three rounds of WCC spending is £1.37bn

Local Multiplier 3 – how can we use it?

- A higher LM3 score would indicate more of the money spent by WCC is staying in the local economy
- For a given level of spend, LM3 score could theoretically be increased by:
 1. Increasing the percentage of staff that live in Worcestershire
 2. Increasing the percentage of staff spending in Worcestershire
 3. Increasing the percentage of spend that goes to local Worcestershire companies
 4. Increasing the percentage of supplier spending that goes to Worcestershire staff and businesses

Greatest scope to increase LM3 from supplier spend rather than staff spend BUT need to comply with procurement regulations

Conclusions

- Local Multiplier analysis helps the council to understand and consider how the money it spends flows through the local economy
- The analysis looks at part, but not all, of the council's economic impact
- Could inform procurement processes
 - through supplier discussions
 - understand local benefits from potential contracts (e.g. when Commissioning)
 - but process and decisions need to comply with procurement rules