



‘The LM3 Story’ a North East Regional Project

**LM3 used
to
Develop Local Enterprise
Measure Financial Impact
and
Contribute to Successful Initiatives
for
Local Suppliers**

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....driving service improvement through efficiency and effective procurement

What is LM3 ?

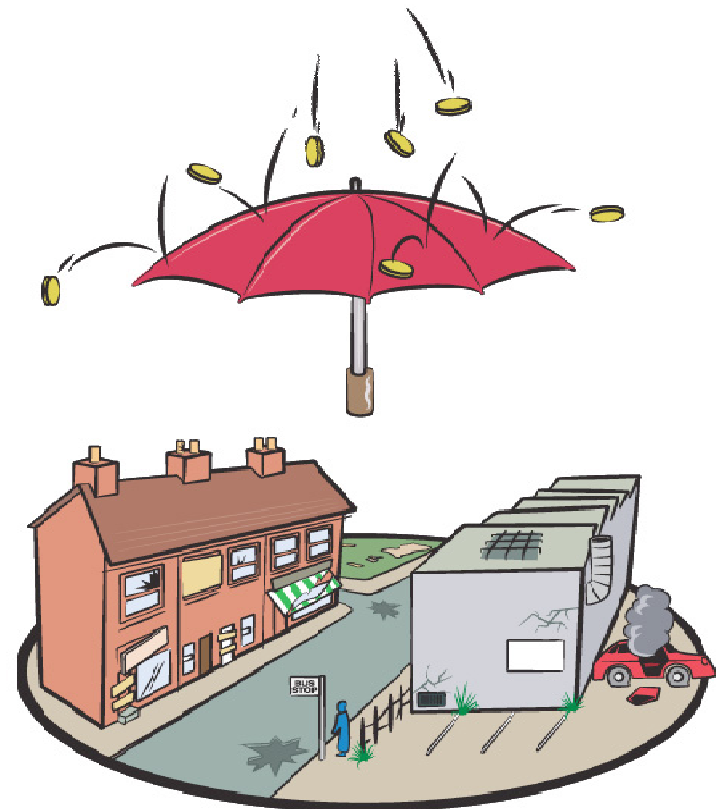
- Primarily a financial measurement tool which enables the measurement of three rounds of spend and the impact on the local economy
- Catalyst for action, which is clear, simple and replicable and a nationally acclaimed exemplar project within the region
- Objective is to increase opportunities for local businesses to win contracts within all business sectors



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Why look at the 'Local Economic' impact of Business Spend

- What happens to money we spend on goods and services?
- How does procurement behaviour relate to corporate strategy?
- Do we promote regeneration through our public spending activity?



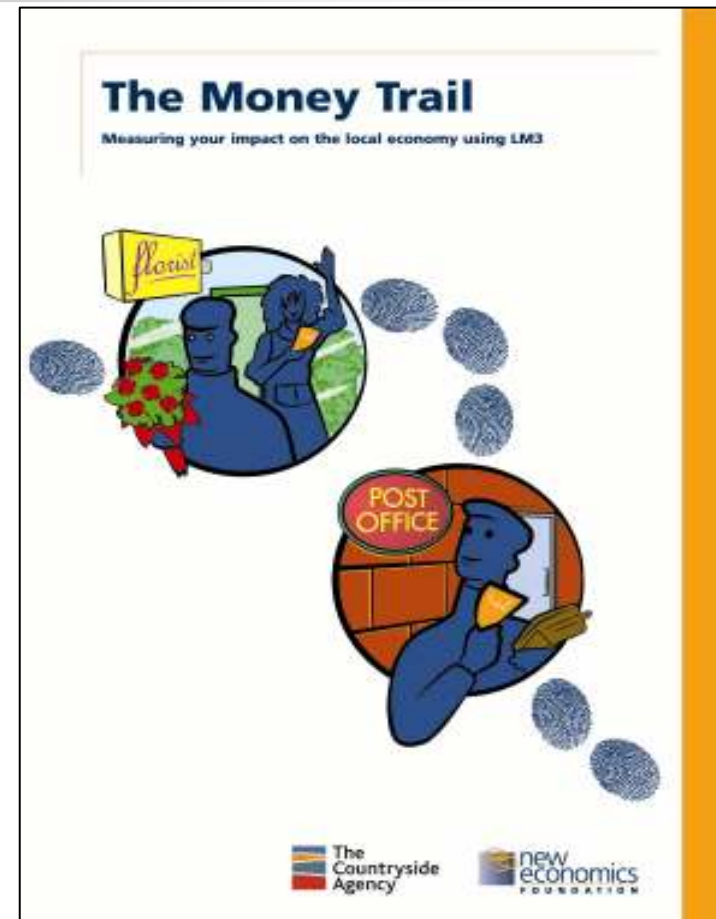
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LM3 - Local Multiplier 3

A

‘DIY Economic Indicator’

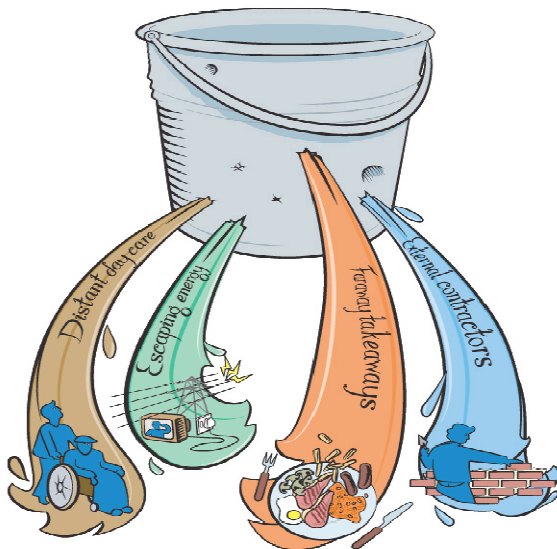
- Enables measurement of the impact on the local economy
- Adapted from the Keynesian multiplier
- Measures three rounds - how money enters, how it is spent, and how it is re-spent
- Clear, simple, transparent, and replicable



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The 'Leaky Bucket'

- Government Funding
 - Tourism/Business investors
 - Export earnings (spending on businesses from non-local people and businesses)
 - Regeneration funding
- Q:** How does money already come into my area?



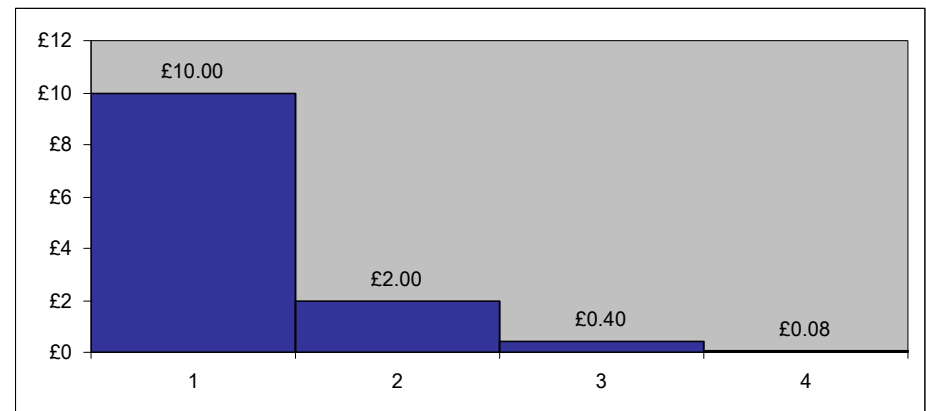
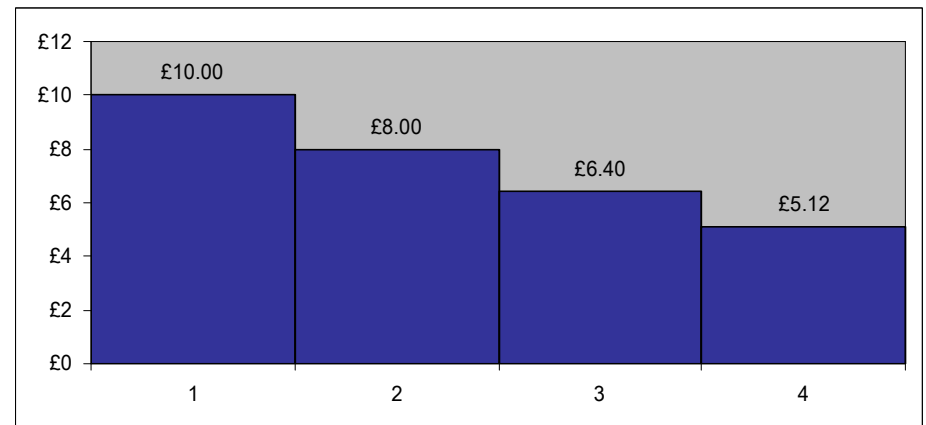
- Energy and waste
 - Taxes
 - Spending on non-local services and products (care, food)
 - External contractors and consultants
- Q:** How do we currently spend our budget?

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The 'Multiplier Effect' A Pound can be more than A Pound

Every time money is re-spent in your local economy, it is like new income for the person who receives it. The more money is re-spent, the higher the multiplier effect.

The areas in blue in the images on the right represent how much money would be generated in your local economy if people spent 80% (top) versus 20% (bottom) locally, over and over.



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How LM3 works in practice 'Two Construction Contracts'

NNDC compared two contracts. The LM3's are on the right. Note that the smaller contract in fact generated more money for the local economy!

This example shows the importance of economic linkages. It's not just where you spend your money, but what happens to your money after that.

North Norfolk District Council

	Contract 1	Contract 2
Round 1	£ 72,000	£ 120,000
Round 2	£ 57,600	£ 20,400
Round 3	£ 24,980	£ 6,760
Total	£ 154,580	£ 147,160
LM3	2.15	1.23

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Developing Local Enterprise

National and Procurement Framework Considerations

- Collaboration and Partnership
- Aggregation and cost reduction
- Individual constitution - finance and contract rules
- EU procurement directives >£139.9k
- Public Sector largest employer in many areas
- Regenerate Economy
- Stimulating Markets
- Achieving community benefits

The Dichotomy - Twin objectives can be achieved !!

- Consolidated and aggregated contracts buying big with reduced prices
- Buying from local suppliers

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LM3 Project in Northumberland

- Project commenced 2004 with appointment of Project Board and Manager
- Partnership – Procurement and Regeneration – NEF, NSP and ONE
- Supporting Key Objectives - Innovative
- Measure and **improve** its local economic impact
- Strategy and project plan developed and agreed
- Definition of a local criteria critical
- Involvement and awareness of all tiers within the organisation
- **Key Initial Milestone Targets**
 - LM3 Benchmarking completion
 - Proactive Food Tender activity

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Procurement Framework

- Northumberland LA annual spend on goods and services approx £245m
- Individual constitutions – finance and contract rules
- EU procurement directives >£139k
- Best Value – combination quality/price

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Tender Initiatives

- Seminars with Suppliers and umbrella organisations
- Encourage networking
- Liaise with Agencies
- Personal mentor contact and support
- Repackage Tenders / Break into lots on focused tenders
- Quality weighting
- One to one business sessions
- Local initiatives focused on request for quotes work below EU threshold

Other Tender Involvement

- Verge cutting
- Sandwiches
- Property and Construction
- Transport

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LM3 Valuation at Northumberland

- **Highlights**

- £1 of income spend from government generates
 - £2.19 in total and £1.19 additionally for the local economy
 - £1.04 from local suppliers
 - £0.15 from non local suppliers

- **Local & Non Local Spend**

- Local suppliers spend 76% locally
- Non local suppliers spend 36% locally
 - £1 spend local is worth 400% more than non local
 - 10% more local spend benefits local economy by 34 million

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LM3 Northumberland Documented Objectives and Initiatives

- Best Value and Community Strategy updated
- Strategic Statement enhanced
- Finance Plan
- Working with the Private Sector using LM3 to:
 - Establish annual worth to the community
 - Encourage increased CSR
 - Encourage increased local spend
- Working with Social and Charitable Enterprises to:
 - Establish annual worth to the local community
 - Encourage increased local spend
 - Increasing future funding opportunities

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LM3 Northumberland

Quoted as 'Best Practise'

- Presentation at DEFRA suppliers conference
- Presentation at Government Office NELL
- Case studies within National SME Concordat
- Case study within SBS publication
- Case study within OGC publication

Procuring for the Future

- National Strategy
- Sustainable Action Plan June 2006
- Recommendation for LM3 application
- Exemplar case study on Food for Northumberland

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Expansion of LM3 throughout the North East

- Jointly funded by the North East Centre of Excellence and the RDA One North East
- The NECE was one of 9 Regional Centres in England
- Set up in 2005 following Government review in 2004
- Building on good practice and support collaborative working, buying consortia and partnerships
- Support and fund LM3 regionally from 2006 as a counter balance

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NECE Implementation Deliverables

- **Individual LM3 benchmark completion for all 25 local authorities:**
 - Generate regional impact by local producers
 - Assist councils in taking targeted action to make the most of current budgets
 - Catalyse change within local authorities in relation to community engagement
 - Utilising LM3 as a delivery mechanism for LEGI Government cash award which contributed to the successful South Tyneside, Redcar and Cleveland and the Wansbeck bids
- **Private Sector** - Some large regional companies e.g. Rio Tinto Alcan
- **Not for Profit Sector** - e.g. Alnwick Garden, Princes Trust, One NorthEast
- **Public Sector** – Partnerships involving Hartlepool PCT, Housing Hartlepool, Hartlepool Borough Council and North Tees and Hartlepool NHS Foundation Trust

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Rio Tinto Alcan

- Evaluation of worth to local and regional economies
- Objective for Alcan to publicise its impact and enhance local, regional and national views of its CSR
- Objective for project to review and have joint agreement to enhanced local spend
- LM3 evaluation to be based on both salaries and spend on goods and services
- Company contributed annually
 - £60m to the local economy
 - £118m to the regional economy
- Commitment by Rio Tinto Alcan to increase local and regional spend
- Report widely circulated including Central government and Cabinet Minister

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Alnwick Garden

- Evaluation of worth to local and regional economies including further assessment evaluated from visitor impact
- Objective for this large social enterprise to publicise its impact and enhance funding opportunities from both public and private sector
- Objective for project to contribute to not for profit sector and give opportunities for recommendations on increased local spend
- LM3 evaluation to be based on both salaries and spend on goods and services
- The Garden contributed annually
 - £6.9m to the local economy
 - £8.9m to the regional economy
- Annual Return on investment by Public funders 54% for the region
- Visitor impact on region assessed at £11.5m annually
- Commitment by Alnwick Garden to continually review expenditure with the objective to increase local and regional spend
- Significant response from both the local community and the RDA One NorthEast

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The Princes Trust (North East)



- Evaluation of impact and worth to regional economy
- Objective for this charitable organisation to publicise its impact and enhance funding opportunities from both public and private sector
- Objective for project to contribute to not for profit sector and give opportunities for recommendations on increased local spend
- LM3 evaluation to be based on both salaries and spend on goods and services
- The Charity generated annually £4.1m to the regional economy
- £1 donated generated an additional £1.16 and £2.16 in total
- An increase of 116% on the £1 donated
- £1 of spend generated £1.79 for the regional economy
- Report used as dissemination tool for current and potential funders

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Recommendations and the Way Forward

- Implement the proposed initiatives to increase local spend
- Identifying local procurement opportunities from contract register
- Implement a series of measures to stimulate, create awareness and encourage local tendering to match those opportunities
- Engaging with local suppliers on 'Request For Quotes' which fall outside EU tendering procedures
- Partnership with top ten local companies to encourage CSR
- Engage with Not for Profit sector to maximise opportunities
- Partnership with linked sector businesses e.g. NHS, PCT and Housing Agencies

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How Do We Do It ?

- By enterprising Public Sector procurement practice
- By operational awareness of local supplier availability by category
- By ensuring local supplier awareness of opportunities
- By ensuring local supplier tender capability
- By building adequate local capacity in advance of the opportunity
- By involvement with large localised private sector organisations
- By working together to create and deliver the Local and Regional relationships with the Private and Not for Profit Sectors

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The LM3 Story Only the 'Beginning'

**THANK
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