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## LOCALISING PUBLIC PROCUREMENT

### A case study based on Coventry City Council's Caludon Castle School PFI

#### >> summary

Public procurement expenditure is one of the largest economic drivers of the Coventry economy. With budgets shrinking in the economic downturn, localising public expenditure is more important than ever for promoting local economic prosperity.

Meanwhile, the trend amongst local authorities is to rationalise or consolidate procurement, awarding fewer contracts for higher values and longer periods of time. This means that the opportunities to localise public procurement expenditure increasingly rely on engagement with the primary contractor over the life of the contract.

This case study measures the direct economic impact of one primary contractor delivering a portion of the Caludon Castle School private finance initiative (PFI) and considers how the issues raised can be applied more widely to achieve economic benefits for Coventry within a challenging budget environment.

#### >> caludon castle school

Caludon Castle School was founded in 1954 as a boys' comprehensive school. In 2004, the school was designated a Business and Enterprise College by the Specialist Schools and Academies Trust. Now, Caludon Castle is a co-educational 11-18 community secondary school attended by over 1,500 students, with a sixth form of 300, serving North East Coventry.

In 2004, Coventry City Council awarded a £24 million, 30-year private finance initiative (PFI) contract to a consortium of companies operating together as the Coventry Education Partnership. Construction of the school began in January 2005, and doors opened to students in 2007.

CEP is responsible for the operation and maintenance of the school, encompassing everything from security to waste management. Active Leisure Management (ALM) provides the sports and leisure services on site, which include a six-lane swimming pool, fitness suite, sports hall and floodlit all-weather pitch.

ALM prides itself on developing local connections in the delivery of its services and was eager to quantify the value of their approach, particularly in consideration of future business development. The measurement process was coordinated by Dave Green, the business manager of ALM's Caludon Castle operations and a seven-year resident of Coventry.

## **>> local money flows analysis**

ALM agreed to work with Coventry City Council and Justin Sacks of K2A to measure their local economic impact using the Local Multiplier 3 (LM3) model. The LM3 model measures not only how an organisation spends its money but also how its staff and suppliers spend their incomes. This enables both local authorities like Coventry City Council and companies like ALM to account for and understand the impacts of their spending decisions.

LM3 measures three rounds of potential income generation. Round 1 is the operating budget being measured, in this case ALM's operational expenditure. Round 1 sets the boundary for how much income could be spent locally. Round 2 measures the proportion of the operating budget spent locally. Round 3 measures how those people and businesses receiving income from the company then spend their incomes. These figures are translated into a ratio that indicates how much income a company generates for every pound it receives as income.

For Round 1, ALM's total annual operational budget is approximately £136,000, all of which is a revenue budget (i.e. non-capital). Of this total revenue budget, data retrieved from ALM's financial accounting system shows ALM spends 65 percent on staffing, 16 percent on operations, and 19 percent on overheads/profit.

For Round 2, Dave determined that all staff expenditure was local. This high local employment rate was due to, 'John's [ALM director] commitment to sourcing as much as possible from the local economy.' Dave adds, 'Also, the skills required for most of these jobs can be met by local people, particularly younger people who are also sports centre users'. ALM pays 28 people, working between four and 40 hours per week, which amounts to three full time equivalent staff in addition to Dave.

Of ALM's operations expenditure, about 20 percent came from local suppliers. While most professional expenses were sourced elsewhere, ALM managed to source a good deal of its sundries from the local economy. Dave highlights one example of lifeguard training, 'As I've lived here for a while, I knew that Henley College offers lifeguard training, and since they were locally based, they could be flexible about when to provide services. We got them to offer training on-site using our pool and flexible hours to accommodate our staff.'

ALM's budget for corporate overheads and profits was not measured in this analysis and was conservatively considered to be non-local for the case study, though some of this money may come back to Coventry.

For Round 3, Dave focused survey efforts on payroll since that represents 65 percent of ALM's expenditure. Based on surveys returned by six staff, or 20 percent of all personnel, he found that staff spend approximately 52 percent locally. The Round 3 figure only includes re-spending by staff, excluding local re-spending by suppliers as well as overheads/profits, which makes these figures potentially lower than they should be.

## >> analysis results

The results of this local money flows analysis can be summarised as follows:

Round 1: Operational budget	£136,000
Round 2: Local expenditure	£86,610
Round 3: Local re-spending	£44,161
Total	£266,874
LM3	1.96

The above figures mean that ALM contributes an additional £130,770 per annum to the Coventry economy. The original operational budget of £136,000 has been excluded from these figures because ALM is headquartered outside Coventry (in Malpas). Represented as an LM3 ratio, 1.96, this means that every pound spent on ALM by users of the sport centre generates an additional 96p for the local economy.

Over the 30-year term of the Caludon Castle PFI contract, this means that ALM's operations will generate £3.9 million for the local economy. Dave expects services to expand at Caludon Castle given current user rates, which means ALM's operational budget, staffing needs, and thus potential local multiplier effect could all increase in the future.

A round by round breakdown follows below to show how the results were calculated.

<b>Round 1: Operational budget</b>	<b>£136,104</b>
<i>Staff</i>	88,212
<i>Operations</i>	22,094
<i>Overheads/Profit</i>	25,799
<b>Round 2: Local expenditure</b>	<b>£86,610</b>
<i>Staff</i>	84,924
<i>Operations</i>	1,685
<i>Overheads/Profit</i>	0
<b>Round 3: Local re-spending</b>	<b>£44,161</b>
<i>Staff</i>	44,161
<i>Operations</i>	0
<i>Overheads/Profit</i>	0
<b>Total (Round 1 + 2 + 3)</b>	<b>£266,874</b>
<b>LM3 (Total ÷ Round 1)</b>	<b>1.96</b>

## **>> fit with local government expenditure**

Coventry Council spent close to £300 million in financial year 2007-2008. Of this total, the Council spent 28 percent, or £84 million, in Coventry, and an additional 29 percent in the West Midlands region. The ALM case study highlights three important issues that inform future Council expenditure decisions.

First, the analysis shows the importance of digging beneath the surface of Council expenditure. ALM is not a locally based business, and so a basic analysis of Coventry's procurement expenditure would deem this expenditure as non-local. However, it is clear that, like many businesses operating local depots or offices, ALM spends a great deal of its income in Coventry operating the leisure facilities at Caludon Castle.

Second, the Council can apply the positive lessons of ALM's expenditure, particularly its high local employment rate, to other expenditure decisions. For instance, how can other contractors working at Caludon Castle or other large projects increase local employment?

Third, the case study points to areas of market development for the Council. ALM's individual expenditure on, for instance, professional services is insignificant; however, ALM can offer insight into the barriers to sourcing from local businesses that the Council can apply more widely.

## **>> fit with local government policies**

A host of corporate policies reference the delivery of community benefits and a prosperous economy as Coventry City Council priorities.

The two policies most relevant to this case study are the Council's procurement policy and Sustainable Community Strategy. The Council's procurement strategy rightly references the need for procurement to 'contribute to the cross-cutting issues of sustainability and equality'. The procurement strategy also focuses on 'stimulating markets and achieving community benefits' (Theme 4).

The Sustainable Community Strategy seeks to promote jobs for local people and to ensure that 'local people will benefit from the economic growth of the city'. In addition, the Development Plan, which guides most regeneration activity, appropriately details an economy and employment strategy to guide decision-making.

This case study quantifies the opportunity available to Coventry City Council, both to gauge how it is directly and indirectly contributing to delivering these policies but also identifying how to strategically and efficiently focus energy in the future.