

# The Money Trail

Measuring your impact on the local economy using LM3





# **The Money Trail**

**Measuring your impact on the local economy  
using LM3**

**New Economics Foundation**

Written by Justin Sacks

Designed by Iris Wilkes and illustrated by Rory Seaford of The Creative Element

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### Who is behind this book?

**Justin Sacks** is the manager of the Local Money Flows Measurement programme at the New Economics Foundation (NEF), where he oversees the development of the LM3 tool. Prior to joining NEF, Justin managed the capital housing programme for the New York City Mayor's Office of Management and Budget, as part of the Housing & Economic Development Task Force. Justin also has extensive experience in both the private and non-profit sectors, most notably in e-government and non-profit venture philanthropy. Justin holds a B.A. *magna cum laude* in Architecture & Urban Studies from Yale University.

### New Economics Foundation (NEF)

The New Economics Foundation was founded in 1986 by the leaders of The Other Economic Summit (TOES), which has forced issues such as international debt onto the agenda of the G7/G8 summit meetings. It has taken a lead in helping to establish new coalitions, such as the Jubilee 2000 debt campaign, the Ethical Trading Initiative, the UK Social Investment Forum and the Green Gauge 'alternative' indicators of social and environmental progress.

NEF is a registered charity, funded by individual supporters, trusts, business, public finance and international donors, and its strategic areas currently include the global economy, corporate accountability, community finance and participative democracy. As much a do-tank as a think-tank, NEF focuses on 'proposition' rather than 'opposition', acting through policy, research, training and practical initiatives to promote a 'new' economy that is people-centred, delivers quality of life and respects environmental limits. NEF is recognised as one of the UK's leading think tanks and was recently voted 'Think Tank of the Year' 2002/03.

### The Countryside Agency

The Countryside Agency is the government's statutory adviser working for people and places in rural England. One of our aims is to promote social equity and economic opportunity for the people who live in the countryside.

The Countryside Agency plays an important role in developing awareness of social exclusion in rural areas and highlighting ways in which it might be tackled. It has supported a wide range of research and demonstration projects through its rural social exclusion programme, including funding for this publication.

To find out more information about the Agency's work please contact us at:

The Countryside Agency  
Dacre House  
19 Dacre Street  
London  
SW1H 0DH

Tel: +44 (0) 20 7340 2900

Fax: +44 (0) 20 7340 2911

Website: [www.countryside.gov.uk](http://www.countryside.gov.uk)

### Contacts

To become a NEF supporter and receive its publications at a discount, contact us at the address below. For more copies of this handbook, or to find out about how we could support you in applying LM3, contact us at:

New Economics Foundation  
Cinnamon House  
6-8 Cole Street  
London SE1 4YH  
United Kingdom

Registered charity number: 1055254

Tel: +44 (0) 20 7089 2800

Fax: +44 (0) 20 7407 6473

E-mail: [info@neweconomics.org](mailto:info@neweconomics.org)

Website: [www.neweconomics.org](http://www.neweconomics.org)

On our website, you will find additional information to that contained in this workbook, such as template surveys and tables that you can use for your own LM3 work.

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## Foreward

Rural economies have incurred many challenges in recent years: Foot and Mouth, reduced agricultural income, fluctuating tourism patterns, and closure of many important facilities such as post offices and village shops, to name a few. The Countryside Agency has therefore taken a lead role in highlighting the challenges being faced by rural communities across the UK, and the less visible effects that a crisis in one sector has on the rest of the rural economy.

It makes sense to us to strengthen our rural economies – increasing their resilience to external knocks, diversifying their income base and increasing internal economic linkages – so that every pound that does enter a rural area is able to work as hard as possible for the benefit of that area before it leaves for the city. Central to our work is the need to focus our attention on alleviating the symptoms of social exclusion in rural areas.

Within this context, we entered into a unique collaboration with the New Economics Foundation. We aimed to build out from their existing programme of work that explored how money flows through a neighbourhood and how communities can increase the circulation of existing money through developing their own initiatives. We particularly appreciated the accessibility of their ideas – using visual images and metaphors to explain seemingly complex issues in very simple terms. Together we developed and piloted a tool that measured how money was being spent in rural areas.

Our goal? To make more visible the seemingly invisible economic benefits of those initiatives that we already knew were having a strong social impact, and to use these results to assist others to take action. Through our tool we have been able to demonstrate:

- Income into organic food box schemes generates about twice as much for the local economy as supermarkets;
- Maintaining open at least one cash access facility in a village is vital to the survival of the shops, and therefore the livelihoods of many people, in the immediate area;
- Social enterprises have a strong impact on the local economy – and a keen desire to improve themselves still further;
- Welfare benefit take-up campaigns can have a significant positive impact on the local economy since poorer people have a greater tendency to spend their income locally; and
- There is much potential for procurement officials to focus their spending patterns towards initiatives that have a stronger impact on rural economies.

Why did we want to make these initiatives more visible? Because their benefits are hidden, unacknowledged or sometimes not even trusted. Such initiatives frequently rely on voluntary action, so they need to solidly demonstrate their value to secure investment by other organisations. Additionally, for innovative actors who want to promote the take-up and application of their work or advocate that funders help to support such initiatives, a set of data that demonstrates the economic value of their work is incredibly useful, if not vital. Finally, the tool itself does not just demonstrate the flow of money in the local economy; it shows the people and organisations involved how to improve their local economic impact. So, when focused on initiatives in our poorer communities, or those experiencing economic difficulties at any point in time, our tool identifies ways that existing money flows can have a stronger local economic impact. It points to action.

Our tool was also piloted by the New Economics Foundation in urban areas on similar initiatives. The approach outlined within this book draws on experiences from all of the pilots undertaken and is thus applicable to many types of communities. We hope the following pages will inspire you not only to question the way your local economy currently functions but also to take action to make it better.

The Countryside Agency



# The Money Trail



# Is *that* the way the money goes?

This workbook is for you if you are concerned about your local economy and want to prove how effectively different parts of your economy are working. Perhaps your community is not thriving, and you are beginning to wonder if the usual approaches to economic development are working at all. You need a way of really understanding what is currently happening in your economy: how money enters, the path it then takes in the area, and how it leaves. You want a tool with a concise and comprehensible result so that you can understand whether or not a particular part of your economy is working well, and if not, what action you can take. Such a tool must also be able to persuade others to take action, so it needs to be fairly engaging.

## Introduction: the LM3 tool

The New Economics Foundation (NEF) has developed just the tool to help you do this. It is called **LM3**, which stands for 'Local Multiplier 3'. In the next chapters we'll explain in more detail how to use LM3 and what this tool can help you achieve. And rest assured, we'll explain all about 'local multipliers', too!

Perhaps you're a business person with a desire to strengthen local linkages in your area, not only because you want to see your community thrive, but because a strong network of businesses in your area will make your business more profitable as well. But before you go about making changes, you want to see how much it's worth to the local economy and to you.

If you are involved in regeneration, then perhaps it seems obvious to you that if more local people could actually win the contracts for the work that is being delivered through the regeneration programme then it would be better for the community. What you need is a clear, simple way to demonstrate the positive impact that can be gained in a regeneration area through greater local circulation of the regeneration funding. And to do this you need to look at how the regeneration funding is currently entering and leaving the community and, more importantly, to identify how to keep more of it in the area.

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Maybe you're a community leader with the strong suspicion that the local bank threatening to close its cashpoint machine will mean bad news for your town. You don't know just how bad, and you don't have a clue how to find out – or even if your hunch is right. Perhaps if you could prove the case then more people might take action to keep the cashpoint open.

So for all these reasons, NEF has created **LM3**, our 'local multiplier' tool. It is intended for regular people who see a need for measuring the impact of aspects of local spending in their communities. You probably have a hunch that spending money locally benefits your community. But how much? That's exactly what LM3 will help you find out.

### Cashing in: Confessions of a local economist

Picture the scene: a cosy community hall in rural Wales on a cool, dark evening. A motley group of two dozen community activists are attending a *Plugging the Leaks* workshop (a different tool developed by NEF for communities interested in local money flows). The focus of the workshop is on how to understand – and strengthen – the local economy. As the group begins to identify how money leaks out of a local economy, one sharp-witted participant shouts out 'external consultants'. Ouch! So why had this group in Wales hired a London-based organisation to teach them about local money flows, when outside experts have done little but mess up local economies throughout Wales? The answer is that ordinary people are often unhappy about the health of their local economy, but they can't seem to get through to the 'economic development' professionals.

And for good reason. As I looked through various economic development manuals in my search for a way to analyse local money flows, I came up against some daunting work. I thought I had struck gold when I discovered a 'how-to' manual on local economic analysis. The book started off innocently enough, but before long, I was plunged headlong into complex mathematical formulae involving square roots, exponents and a sea of multi-letter variables.

$$R_{ij} = \sum_{t=1}^t \frac{Y_t - Y_{it}}{(1+d)^t}$$

**Aargh!!!** ←

Getting increasingly frustrated, I threw the book down and wondered if it really was possible for ordinary people to analyse the functioning of the local economy at all.

Not long afterwards, I witnessed an enlightening discussion on how to understand the local economy. A perplexed local official asked whether anyone could point him in the direction of any recent research on the effect of money coming into a local economy. The huffy response from a professional economist was, 'Can I make a plea for practitioners to check their basic theory about regional analysis before allowing opinions to take over? There is a lot of fundamental material in the literature available on the identification of what are basic sectors and how to calculate local and regional multipliers.' Say what?! That's why we've worked on developing our LM3 tool. There is a real disconnect between the information out there and the people who need and want to use it. And a tool that is hard to use is worthless to the majority of people who would like to apply it.

## Why bother measuring?

If you want to turn heads and inspire others to action, you need something behind you to do it. In recent years NEF has had formal and informal conversations with many frustrated people who have a strong feeling that the decision to leave the future of their local economies up to the market has been wrong. They know action is needed to keep the last cashpoint open, as they had seen so many shops close in other areas when the final post office, cashpoint or bank branch moved out. They know that out-of-town supermarket proposals must be very carefully thought through since they have seen towns with declining high streets. They feel bad making spending decisions that seem to have no benefit for local farmers, manufacturers or retailers.

They know all of these things. But they cannot produce clear and convincing evidence to back up their case. What they want is a simple tool that would help them to understand and to demonstrate the local economic impact of bad decisions and good solutions.

In response to this need, NEF has created a simple tool, called **LM3**. The LM3 tool has been rigorously tested in 10 different communities and in five different economic sectors:

- 1) Government procurement
- 2) Food and agriculture
- 3) Social enterprise
- 4) Access to finance
- 5) Welfare benefit take-up campaigns

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For each of these sectors, we have worked in two or more places, urban and rural, to test and develop our tool. As we have done so, it has become abundantly clear that LM3 not only enables people to understand local economic impacts but also highlights opportunities to strengthen the local economy. After giving themselves a pat on the back, each of the 10 projects went about changing how they operated in order to improve their results and score better next time. So the LM3 measuring tool acts as an incentive to *improve* performance, not just a single standalone analysis.

# Understanding the local economy

*The problem is not necessarily that too little money flows into a neighbourhood. Rather it is what consumers, public services and businesses do with that money. Too often it is spent on services with no local presence, and so immediately leaves the area.*

The Government's National Strategy for Neighbourhood Renewal<sup>1</sup>

NEF's LM3 tool tracks where money is spent in your local economy. So before we explain it in detail, you need to make sure you have a grounding in how local money flows. But given that a primary goal of this book is to make the process both simple and fun, we are going to use a bucket as our metaphor for the local economy.

## How local money flows – or doesn't

Imagine your local economy as a bucket. Nothing fancy or complicated, just an ordinary bucket like the one under the kitchen sink. Your local economy could be any size – your neighbourhood, town, county, and so on. Swirling around in that bucket are all the people and organisations that make up a local economy, such as schools, banks and stores.

Let's say you're a local business in this bucket. You spend £100 on a window cleaner from the town, so the £100 stays in the bucket. But when you shell out £100 on an outside caterer from the town nearby, that money doesn't stay in the bucket. Spending on the caterer is like a leak in the bucket (you can see now how practical demonstrations of this have provided hours of fun for us). The £100 leaks out as the supplier business is outside the local area.

There are usually ways of stopping some or all of this £100 from leaking out. We could use a local caterer instead, or, if they can't handle the bigger events, maybe give them the business for the smaller events, or maybe even use several small caterers together.

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A full bucket means that local people have enough money to buy what they need for a good quality of life. If your bucket is leaky, though, you will need to pour money in as fast as it is pouring out in order to keep it full. There are two ways to keep the bucket full: you can pour the money in faster, or you can keep it in longer by plugging the leaks.

Some well-to-do communities have huge inflows of money and don't need to worry much about how they spend the money or how it leaks out. However, if you've read this far, it's more likely that you see some room for improvement. In that case, an important way to improve your local economy is to find ways to stop money from leaking out as fast as it currently does.

As you become more interested in plugging the leaks in your community's economy, and want to get others involved too, you may want to get hold of NEF's companion book, ***Plugging the Leaks: Making the most of every pound that enters your local economy***. You'll find a more detailed explanation of these concepts (plus a lot more fun graphics involving buckets) as well as steps for communities to take action.

### Blue fingerprints: who touches local money?

Suppose you painted a pound coin blue and watched where it went. Every time it changed hands within a community, it meant income for a local person. If the blue paint were to come off onto people's fingertips, how many people would have blue fingers before the money finally left the community? The more times it changes hands, the better for that community. In fact, money that is re-spent in a local area is the same as attracting new money into that area. Either way, it is new money into the hands of the person who receives it. What you want to know is: what happened to that blue pound coin and the fingers it touched? And that's what our tool does – it follows the trail of the blue pound coin so you know where your money is going in your local economy.

Let's look at a practical example. Leaders in Tayside wanted to evaluate their tourism industry. Tourism is a very common sector to measure because it is a clear case of money from outside (in the form of tourists) being spent in the local area. So regions that depend on tourism often work hard to make the most of that outside investment. Tayside chose to measure the local economic impact of hotels versus B&Bs, the two principal types of accommodation in the area. Their study showed that although tourists staying in hotels spent 70% more than those staying in B&Bs, the total income generated locally was in fact higher for B&Bs. This was because most of the money spent in hotels leaked immediately out of the local economy: non-local staff and owners, legal services provided by London firms, and so on.

So the local economy is the sum of many parts. Where you spend your money matters. But it also matters where the people you give money to then spend their money.

## Who should measure money flows?

If you're reading this workbook, you probably think measuring local money flows might be useful. But there are reasons for many types of people to measure the local economic impact of their work. This book should help you persuade them.

### Government

The mission of government is to act on behalf of its constituency. The spending decisions they make could increase the amount of money in poorer people's pockets, or they could leave them worse off. As the greatest single budget holders in poorer communities, public sector workers (from regeneration partnerships, schools, healthcare organisations, procurement departments, and more) have an enormous role to play in developing local economies. In the London Borough of Southwark, and many other places, the local authority is the biggest employer and purchaser by far.

More effective spending decisions by government can benefit local people and government strategy, too. As the local economy improves, government will have less need to spend money on welfare benefits and can apply the money they save to strategic economic solutions.

### Businesses and organisations

Whether for-profit or non-profit, small- or medium-sized, local enterprises all stand to benefit from measuring their local economic impact. If a business is seeking to receive public funds, its ability to prove its value to the community in clear, quantifiable terms will help to persuade public sources to fund the business. Business leaders may also wish to determine just how much they affect the local community, and in the instance of community enterprises, to assess if they are achieving social objectives.

Ordinary businesses stand to benefit from measuring their local economic impacts. If they really understand the local economy, this will improve marketing and product development, as well as staff morale and customer relations. Other organisations, from churches and mosques to airports, hospitals and universities, will also benefit from similar insights into their economic inter-relationships with surrounding communities.

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### Communities and individuals

The aim of measuring local money flows is to make sure money is flowing to and staying in your community as much as possible! As we learned from our conversations with those many frustrated people, sometimes noise isn't enough to get the attention of businesses and government. If you can present solid evidence of how the decisions of businesses and government affect your community, you may turn some heads. Measuring local money flows reminds everyone in your community – businesses, government, and of course local residents – that how they spend their money *can* make a difference.

### Robbing Peter to pay Paul?

After all the discussion about local money flows, we are often asked, 'Isn't this really just robbing Peter to pay Paul?' The answer is, no, we are not interested in diverting money from one local store in the community to another. But the purpose of measuring local money flows is to understand where your money actually goes, and to allow you to decide for yourself where you want it to go. By using LM3, you can make each and every pound work harder in the local economy, so it's more a case of taking some of your business away from Peter so as to pay Paula, Phil and Pat, too. If Peter doesn't like it, he can start contributing more to the local economy.

But let's be clear. The LM3 tool is not about trying to close off a community from connections with the outside world. Instead, it is about increasing local linkages in order to maximise the use of all incoming inward investment, whether its source is government, business or consumer spending. This will make the community richer and thus better able to buy from other communities those items or services that it desires and are not available locally.

We aren't arguing for self-sufficiency and isolation, ignoring very important inward investments. We don't believe in a blanket local purchasing programme. This sort of protectionism went out of fashion in the Dark Ages for a good reason – protected businesses became complacent; prices rose; quality and consumer choices fell.

On the other hand, we *are* asserting that the benefits of local enterprise as well as the challenges they face are incredibly undervalued. Caroline Cranbrook describes a Suffolk pig farmer, who started off by selling high-quality hams and bacon to nearby village shops. Over a number of years, his business grew to supplying 35 local outlets, as well as others outside the region. He said it would have been impossible to start and sustain this successful business if there had been no village shops to which he could sell his products when he first started his business<sup>2</sup>.

It is very difficult for small businesses to supply or service the needs of large businesses directly – big businesses on the whole only deal with other big businesses. They employ the large accountancy firms, not the small individual businesses. They hire cleaning contractors not individual cleaners. They buy in bulk – at a scale that no small business can provide. And they are notorious for being slow to pay invoices. So an economy made up only of larger businesses inhibits smaller businesses from starting up, and this limits consumer variety in the local economy.

Our tool is also designed primarily for poorer communities. Indeed, if richer areas plugged all of their leaks there would be a big problem, since no money would flow into poorer areas at all! Plugging leaks in richer communities can also lead to problems of over-heating: recruitment difficulties, soaring house prices and salary levels, and so on. So we encourage those in richer communities, if they want to get involved, to collaborate with poorer areas nearby.

## Who is the weakest link?

Economic development experts have historically spent much of their time attracting large businesses into poorer areas in the hope that they will employ lots of local people. This could be a Japanese car manufacturer, an electronics firm or a call centre. It's called inward investment, and it often makes the news.

Unfortunately, there are several challenges to the inward investment approach. First, because so many local authorities in the UK and abroad are competing for such investment, they have to offer enormous incentives, which can offset any benefits. One recent study in London showed that the collective incentives added up to more than the benefits brought when the company finally relocated.

Second, even if a company can be attracted to your area, it will often be attracted straight out again if better incentives are offered elsewhere. This is exactly what happened when Dyson suddenly announced that they were moving from Gloucestershire to Malaysia, or when a software company was coaxed into relocating to the South Bronx in New York but then found that it couldn't recruit enough local software code-writers<sup>3</sup>.

Third, as with regeneration funding, simply getting the investment into the area isn't enough. It is the *linkages* that the incoming firm makes with local firms and local people that determine whether or not the local economy benefits. Such linkages do not occur naturally, however. A case study of a Toyota plant found that only five out of 240 companies providing inputs were from the region; and a Scottish electronics companies study identified only 12% of material inputs as being from Scotland<sup>3</sup>.

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Developing fruitful local linkages is very important, yet it is a process that is often not supported as effectively as it could be. And it is only if an inward investment is really embedded, with a thick web of local linkages and ties, that it can secure a long-term future for your community.

The same holds true for other in-flows of funding – tourism income, agricultural sales, welfare benefits, or grants. All too frequently, little of this money reaches the hands of local people, and that trickle leaves the area far too quickly.

### The regeneration game

Nowhere does the money leak out faster than in the efforts to ‘regenerate’ poor communities. This is how it works. Take a regeneration area with a hefty New Deal for Communities grant and perhaps awash with a Single Regeneration Budget (SRB) programme, too. A consistently observed leak in the bucket is the awarding of contracts for housing improvement. The contracts almost always go to large external contractors because they can claim a track record in delivering to high standards and tight timescales (often these claims are well-founded). It is understandable that overstretched regeneration staff choose to award contracts in this way, as it gives them the hope of meeting a specific target in the short-term.

How can measuring local money flows with LM3 help? Toss a blue pound coin into a typical housing contract and see where it goes. We find blue fingers on the outside housing contractor, staff from the town where that contractor is based, and some larger suppliers in that town and the surrounding area. The only blue fingers in the target community are a few low-wage workers whom the housing contractor hired as day labour. So what can be done?

A more effective long-term approach would be to undertake work more slowly, gradually building capacity (as well as houses) inside the community so that they are increasingly able to undertake their own development. For example, a scheme could be created to strengthen relevant building skills in the first couple of years of a regeneration programme. Then those trainees could form the basis for local tenders for contracts in subsequent years – more than capable of winning new contracts on the basis of open competition. Alternatively, administrative support could be offered to a group of small local traders to help them organise themselves into a contracting co-operative to win bigger contracts.

A scenario such as this could be initiated by government, businesses, the community, or preferably all three working in partnership. And it would benefit all of them as well. The government would benefit by fostering economic development in the area, which would not only improve the quality of life among their constituency but also

bring in more revenue in the form of taxes. Local businesses would grow, and perhaps even begin to attract money from outside areas as they become stronger and more competitive. And people would benefit from the increased job opportunities, not to mention the availability of local construction services.

So let's take a closer look at **LM3**.

# Local Multiplier Effect to the rescue

Remember that circulating blue pound coin? The more fingers it touches, the more people with blue fingers. In economics, there is a way of measuring how much wealthier those people with blue fingers became as a result of the journey of that pound coin, and it's called the multiplier.

## What is the multiplier?

The multiplier was invented by John Maynard Keynes, one of the greatest British economists of the 20th century. The multiplier has been used to study all sorts of economics problems since then, such as the tourism industry where so much non-local money enters a country. The multiplier has mainly been used to look at the economy at the national or regional level (or 'macroeconomic' level as it is called). We have adapted this work to make it relevant at the local and organisational level (which is called 'microeconomic'). At the local level, one-off events and short-term fluctuations can mean the local multiplier is an approximation, but even a rough and ready calculation offers valuable insights into the functioning of the local economy. To see how, let's look at some examples.

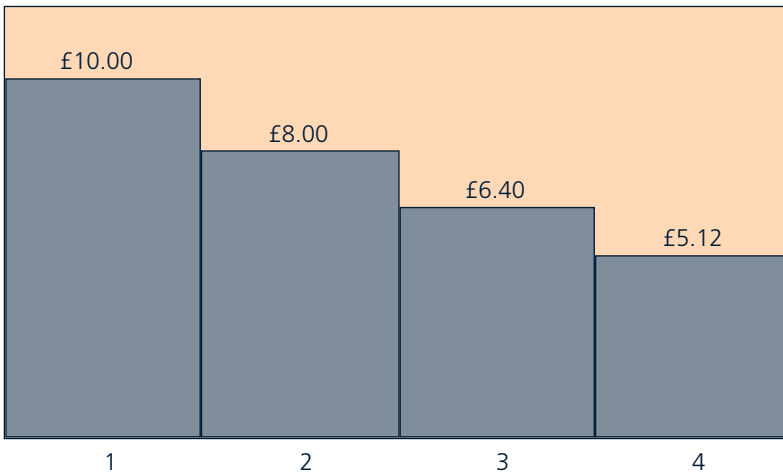
## A tale of two cities

Imagine two towns, Localton and Leakyville. In Localton, people and organisations tend to spend most of their income on local items, such as groceries, repair work, child care, clothing, and so on (let's say 80%). Here comes Jack. It's his birthday and his Aunt Anne has sent him a nice gift: a £10 note to spend. He buys a bargain glass vase for £2 in the retail park in nearby Outletston, and returns home where he buys some flowers from the florist for £8. The florist can then get a long-awaited hairdo, so she runs over to the hair salon next door, where she spends £6.40 (that's 80% of £8). And she spends the rest of this money on a mail order subscription to *Flowers Today* magazine. The hairstylist feels peckish, so she pops out for something after finishing the florist's hair. She spends £5.12 (80% of £6.40) on a pizza, and saves the rest towards a forthcoming hairstyling conference in Curlyburg.

So what do we have in the way of blue fingers? Jack received £10 from Aunt Anne and spent £8 at the local florist; the florist spent £6.40 at the hairstylist, and the stylist spent £5.12 at the pizzeria. The rest of the money left the local economy because the vase was from Outletston, the florist's magazine is produced in Basildon, and the hairstylist's conference is in Curlyburg. So that's a grand total of £29.52 for Jack's town, all because of Aunt Anne. If we take Aunt Anne's original £10 out, then that means an extra £19.52 circulated in Localton all due to her original £10 gift, and that is only the first three rounds of spending. The figure below shows how money is flowing in Localton:

**Local money flows in Localton**

The area in blue represents money that's stayed in Localton



Meanwhile, in nearby Leakyville, people don't spend much (generally just 20%) of their incomes locally because they have been hit by an outbreak of catalogue-fever. Most of their money goes on delightful consumer goods shipped from Mailorder-over-Seas. Jack's twin brother, Will, lives in Leakyville and also receives his £10 birthday present from Aunt Anne. He immediately buys £8 worth of gadgets from his favourite catalogue and spends the remaining £2 at the local florist. The florist uses 40p (20% of £2) to buy a cuppa in the local café while browsing a new brochure, and the café owner uses 20% of that income to buy a packet of chewing gum.

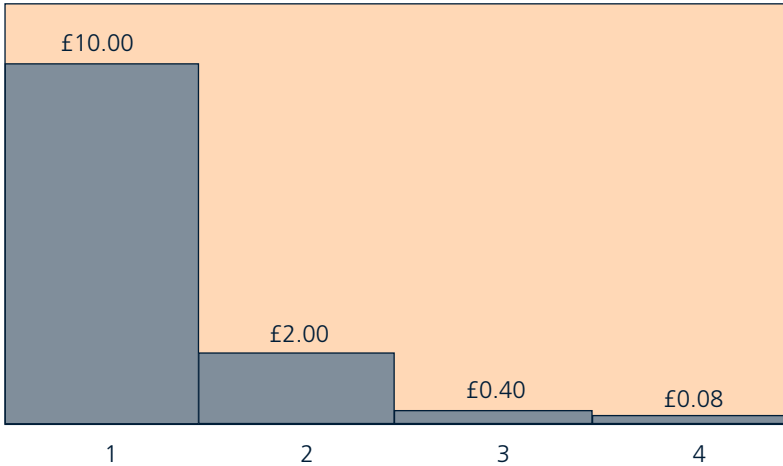
So what do we have in the way of blue fingers in Leakyville? Will received £10 from Aunt Anne and spent £2 at the local florist; the florist spent 40p at the café, and the

## The Money Trail

café owner spent 8p on gum. The rest of that money left the local economy. So that's a grand total of £12.48 for Will's town. And if we deduct Aunt Anne's original £10 this time as well, that means her gift only generated £2.48 for Leakyville. The figure below shows how money is flowing in Leakyville:

### Local money flows in Leakyville

The area in blue represents money that's stayed in Leakyville

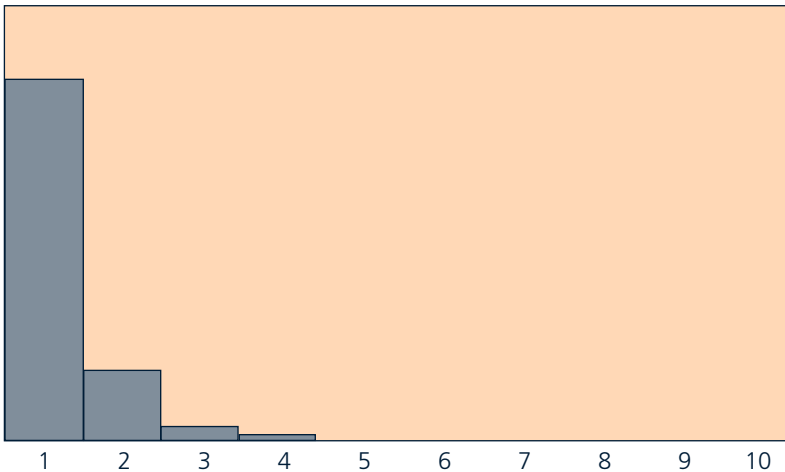
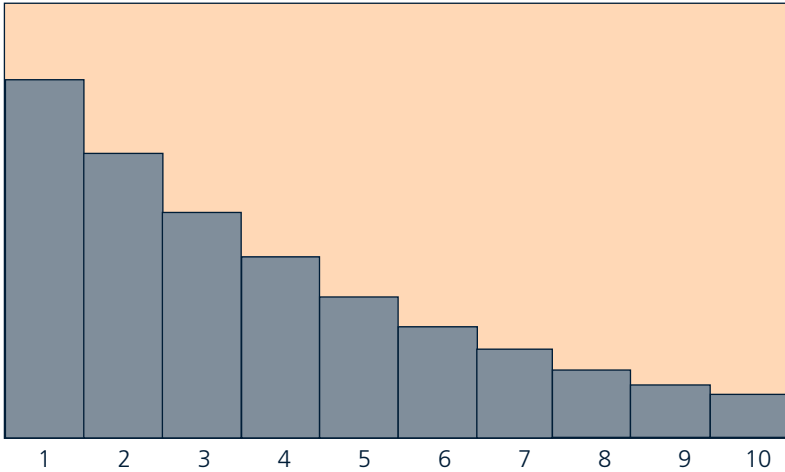


If we compare money flows in Localton and Leakyville thus far, the illustrations above show clearly what's happening. A lot more of Aunt Anne's £10 gift has stayed in Localton. However, money doesn't stop flowing after these first three rounds. It keeps going. While there's still £5.12 for the pizza restaurant owner to spend in Localton, there's only 8p left in Leakyville. So the amount that Aunt Anne's gift generates for Localton will grow even more.

You can see how these additional rounds of spending add up:

**Local money flows in Localton (top) and Leakyville (bottom)**

The area in blue represents money that's stayed in the local economy



Even after 10 rounds of spending, there's still some money left in Localton; whereas there is nothing at all left in Leakyville by round six.

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If we were to add up all of the money generated in Localton versus Leakyville from the original £10, we would find:

Localton 80% of money stays locally		Leakyville 20% of money stays locally	
Enters	Remains	Enters	Remains
£10.00	£8.00	£10.00	£2.00
£8.00	£6.40	£2.00	£0.40
£6.40	£5.12	£0.40	£0.08
£5.12	£4.10	£0.08	.....
£4.10	£3.28		
£3.28	.....		
<b>Total £50.00</b>		<b>Total £12.50</b>	

In all, Aunt Anne’s gift generated five times as much as its original value in Localton! Meanwhile, her gift generated just one and one quarter times as much in Leakyville. Obviously, everyone spends their money in unique ways, and there’s nothing inherently better about cut flowers than gadgets. We presented a simplified example to highlight the impact that spending can have. It’s not just where you spend your money that matters. It’s also where the people you buy from spend *theirs*.

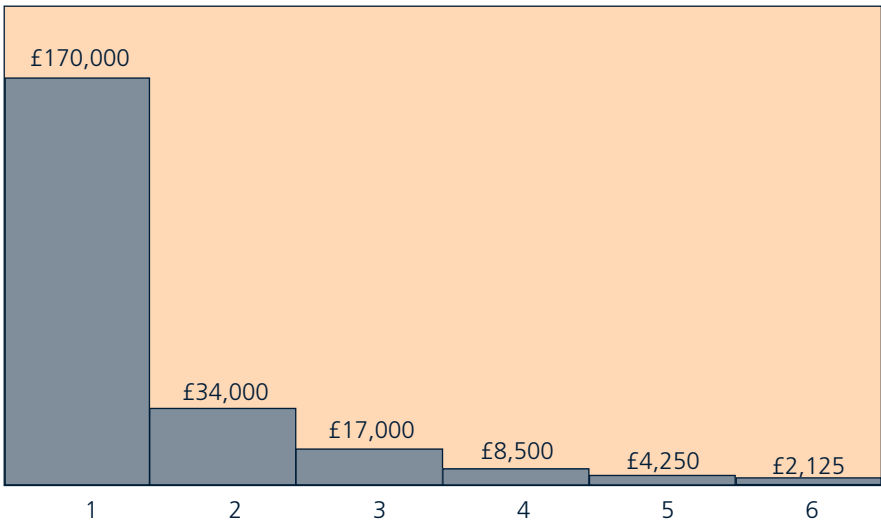
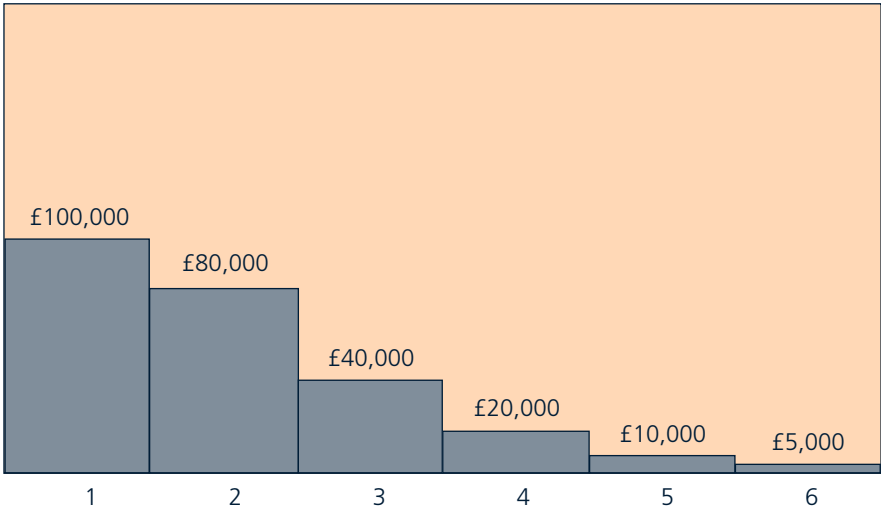
In the above examples, if everyone spends 80% of their income locally, then the town ends up with £50, which is five times as much as our starting point of £10 from Aunt Anne. In Leakyville, where everyone spends 20% of their income locally, we end up with £12.50, which is a significantly smaller addition. This income, the amount of money that Aunt Anne’s £10 gift generates for each town, is called the multiplier effect. And as you might be able to guess now, it’s called the multiplier because it shows the money that flows into a local economy can have an impact – a *multiplied* impact – on the rest of the local economy.

### Where to stay by the Tay

Let’s go back to Tayside to see a real example of the multiplier effect in action. Here, the question was: what is the local economic impact of tourists staying at hotels as opposed to B&Bs? In a given period, the B&Bs receive £100,000 from tourists, much the way Jack received £10 from his Aunt Anne, while the hotels receive £170,000 from tourists. The hotels receive more money because Tayside tourists spend 70% more at hotels. The B&Bs and hotels all spend money on various goods and services in order to operate. Some of the chief expenditures are on staff, suppliers such as

**Local money flows generated by B&Bs (top) versus hotels (bottom)**

The area in blue represents money that's stayed in the local economy



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food and linen, and services such as laundering and decorating. However, the B&Bs spend 80% of their turnover on these types of goods and services in the local area, while the hotels spend only 20% locally.

As a result, the £170,000 spent by tourists at hotels has only multiplied an extra £34,000 for the local economy, whereas the tourist spending at the B&Bs has multiplied £80,000. If you then consider how local staff and suppliers of the hotels and B&Bs spend their money, you'll find that they're all pretty much the same: for this example let's say 50% of their wages are spent locally. Even though these staff and suppliers of the B&Bs and hotels spend the same percentage of their incomes locally, there is much more money circulating around Tayside from the B&Bs (£80,000) than from the hotels (£34,000). This means B&B staff spending generates an extra £40,000 for the local economy, whereas hotels chalk up just £17,000. The diagrams on the previous page show the local multiplier effect in action.

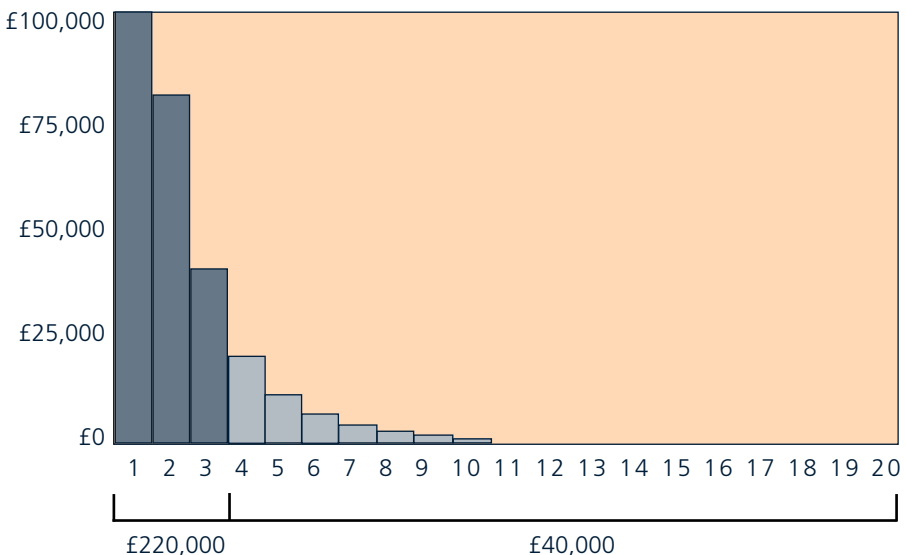
The re-spending continues on technically forever, although the sums become pretty minimal after a few more rounds. So if we add up the first six rounds, we find that Tayside B&Bs have multiplied their income to a total of £255,000 while hotels reach £235,875. The blue area in the diagrams represents the money that stays in the Tayside economy. The diagrams show how the money spent at B&Bs circulates for more rounds than the money spent at hotels. It's just like the tortoise and the hare. The B&Bs get off to a slow start but win in the end, while the hotels take the lead at the start but fizzle away very quickly.

This shows why measuring the local multiplier effect is so important. If we had only looked at the income of hotels and B&Bs, we would have made the assumption that hotels were better for the local economy than B&Bs.

# Introducing LM3: the local multiplier tool

The multiplier calculations we've described have previously only been used by economists. Since this is their full-time job, they set up massive computer programmes, data sets, tables, charts, and so on (and of course lots of those complex formulae). But NEF has talked to a lot of ordinary, busy people who would love to do something similar – if only it were quick and simple.

So NEF has adapted the techniques we've been describing and created a tool called **LM3** (for 'Local Multiplier' 3). You now know what a multiplier is. We call it 'local' because it's for local use, not macroeconomic use. And '3' because we measure only the first three rounds of spending. As you can imagine, we could go on measuring people's spending forever, but we have to draw the line at some point. Since most of the spending takes place in the first three rounds, we stop there. To see how this works, take a look at the following illustration, depicting the local multiplier effect for the B&Bs in Tayside.



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Rounds 1-3 total £220,000 while the remaining rounds, 4-20, total just £40,000. LM3 captures 85% of the action, which is a sufficient indication of money flows in your local economy.

### Describing LM3 in 250 words or less

So how does it work?

Start with income, sales or turnover, which we call initial income. In the Tayside example above, the B&Bs' initial income was £100,000.

Then measure how that income is spent. People and organisations spend money differently so we calculate their expenditures differently. In Tayside, we first measured the spending of the B&Bs, which are organisations. Then we measured the spending of the people and organisations receiving money from the B&Bs.

The LM3 goes three rounds. The B&Bs' initial income of £100,000 is Round 1. Round 2 is how much the B&Bs spent locally: £80,000. And Round 3 is how much of that local spending is then re-spent by the B&Bs' local staff and suppliers in the local area which comes to £40,000.

Add the money from all three rounds together (£220,000), divide by the initial income (£100,000) and presto, you get the answer 2.20. This is the local multiplier score for three rounds – or LM3.

Very importantly – our LM3 tool is an *indicator*. We use indicators all the time, such as television ratings or stock market estimates (like Dow Jones). These are indicators because they are not exact measurements but do give us a general sense of how something is doing. Likewise, when you calculate your LM3, your result will offer general insight into how one aspect of your local economy is working, rather than a fixed, unchangeable fact. And, just like television ratings, local multiplier results are open to interpretation.

Sector	Pilot projects
Government procurement (construction contracts)	North Norfolk District Council North Norfolk
	Knowsley Metropolitan Borough Council Knowsley, Merseyside
Food and agriculture	Cusgarne Organics Cornwall
	Graig Farm Organics Powys, Wales
Social enterprise (businesses with a social purpose)	Eden Community Outdoors (ECO) Appleby, Cumbria
	Longley Organised Community Association Ltd. (LOCAL), Sheffield
Access to finance (through a local cashpoint machine)	Ibstock Community Enterprises (ICE) Ibstock, Leicestershire
	Killamarsh Parish Council Killamarsh, Derbyshire
Welfare benefit take-up campaigns (i.e., Working Families Tax Credit and Income Support)	Lancashire County Council Lancashire
	Newham Council Social Regeneration Unit, Borough of Newham, London

## The results of the pilot projects

As we have mentioned, we took our LM3 tool on the road and worked with 10 communities in five sectors across the UK, testing the methodology and application rigorously. We outline these projects above.

The results overwhelmingly proved one point: evaluating local money flows *is* useful and informative. As is the nature of pilot projects, both the communities and NEF learned along the way – what to do and especially what not to do. This workbook compiles and incorporates all this information so you won’t have to learn too many lessons the hard way.

### Local government procurement

Local government procurement has far-reaching impacts on local economies. Local governments are collectively among the largest budget holders in the UK, and they are often the largest single employer in some areas. NEF worked with two local

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government councils, North Norfolk District Council (NNDC) and Knowsley Metropolitan Borough Council (KMBC), to evaluate the impact of construction contracts on their respective local economies. Both councils evaluated local and non-local contracts. KMBC was surprised to discover that the non-local contractor actually generated a slightly higher local multiplier effect than the local contractor, **1.17** versus **1.11**.

Upon further investigation, the 'local' contractor for KMBC turned out to be the regional headquarters for a national construction corporation. And the 'non-local' contractor, despite being outside the borough, was geographically close to Knowsley, so a good number of its staff commuted. This is the kind of insight we gain when we dig down beyond the first round of spending. NNDC found that its local contractor generated an LM3 score of **2.15**, while its non-local contractor generated a score of just **1.23**. This is a *major* difference in local economic impact.

The NNDC project leaders found these results so illuminating that they are using the same methodology to see how these results compare with those for service and non-construction contracts. These will be used to inform the redrafting of NNDC's Corporate Procurement Strategy. KMBC has incorporated its learning about local money flows as it moves forward with its online presence, and the Council is putting together an electronic network so local government officials can access local businesses quickly and easily.

### Food and agriculture

Food was perhaps the easiest area in which to work because it exists everywhere and affects everyone. NEF worked with Cusgarne Organics, an organic farm in Cornwall, and Graig Farm Organics, based in Powys, Wales.

Cusgarne Organics chalked up an LM3 score of **2.00**, while Graig Farm Organics calculated its LM3 score as **2.15**. Both farms calculated a high LM3 because most of their staff are local, as are many suppliers. Another factor in the LM3 figures is the size of the local area. For instance, Cusgarne Organics used a geographic radius of 15 miles.

Both farms are using the LM3 information: not only to persuade others of their value to the community but also to inform their own decision-making. Cusgarne, for instance, has successfully marketed its LM3 in Cornwall to win not only more business but also more awareness about local money flows in the area.

## Social enterprise

Social enterprises are interested in LM3 because they need to know how well they are achieving their social objectives – they have a double bottom line, financial and social. They are also expected to show investors (including government and foundations) that the money given them is being used effectively. This could play a key role in helping them to secure contracts for service delivery or grants.

We worked with Eden Community Outdoors (ECO), a youth education and development organisation in Cumbria, and LOCAL, a neighbourhood regeneration initiative in Sheffield's Longley neighbourhood, which is receiving significant sums of public money (from a fund called SRB).

Both enterprises found their LM3 scores encouraging: **1.87** in Cumbria and **1.67** in Sheffield. The social enterprises found that local staff salaries contributed the most to the LM3 score, while local suppliers were also important. However, they both wanted to improve these scores. And while you can't source locally what isn't there, LM3 did inspire these organisations to consider how they are currently spending their turnover and make improvements where possible.

The question 'Is spending this money worth it?' is often asked by both social enterprises and their funders. Funder organisations such as the Organisation for Economic Co-operation and Development (OECD) want to evaluate the impacts of their funding decisions but lack a clear and simple tool. LM3 offers a solid response.

## Access to finance

NEF worked with Ibstock Community Enterprises (ICE), and the Killamarsh Parish Council, both considering the local economic impact of their cashpoints. In both cases, we found that the presence of a cashpoint plays an absolutely crucial role in the vitality of the local economy. Both communities have in fact fought long battles to keep their cashpoints in town.

In Ibstock, it took the community enterprise, ICE, to reinstate the cash machine after the closure of the last bank in the village. After losing all of its cashpoints, Killamarsh fought to open a cashpoint next to the co-operative grocery store on the high street. The Parish Council obtained 50% of the capital costs to do this from the co-op and the other half from a national bank. The grocery store's sales increased so dramatically after opening the cashpoint that it has more than recouped its original investment.

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Both communities discovered that people spent between **50-67%** of their cash withdrawals in the immediate vicinity. This data proved especially useful for Killamarsh, as they had recently financed a bus to bring elderly and disabled persons to the high street. Both communities found impressive evidence of the economic importance of the local cashpoint facility within the first two rounds of the LM3. They didn't even need to go on to round three.

These results provide tremendously powerful ammunition for communities across the UK, especially rural areas, to demonstrate the value of local access points to money. And as both pilots illustrate, even if you cannot convince the bank (or Post Office, or any variety of services) to stay, it may be worth the future vitality of your community to invest your community's own money.

### **Welfare benefit take-up campaigns**

NEF worked with the Newham Council Social Regeneration Unit in London and Lancashire County Council on different welfare benefit take-up campaigns. Newham focused on increasing take-up of the Working Families Tax Credit (WFTC), which is for employed families on low incomes. Lancashire focused on all of its welfare benefit customers, of which the largest proportion was elderly people on Income Support.

Newham calculated an LM3 of **1.77**. In Lancashire, the surveys confirmed that welfare recipients in the Ribble Valley indeed spend what little money they do have in the local area. The point became clear for both local governments: encouraging welfare benefit take-up contributes to the local economy. The councils found that, because their target populations were on low incomes, the increased income was spent on additional necessities, most of which were bought in the local area at local stores. Newham has found LM3 so useful that it plans to use it on its own Income Support programme.

The welfare benefit take-up campaigns illustrate very clearly that programmes such as Working Families Tax Credit and Income Support are not merely 'welfare'. They can be effective strategies for healthy economic development in your community.

So our pilot projects show that the LM3 tool is a bit like a Swiss Army Knife: each community has found it useful in different ways, confronting unique challenges by adapting the tool to best suit their needs. As an organisation, business or individual, you can decide how LM3 best works for you.

# Worked example 1: Eden Community Outdoors

Economics makes a lot more sense when you can see it in action, so let's take a detailed look at how one organisation has actually used LM3. Eden Community Outdoors (ECO) is based in Appleby, Cumbria, in the northwest of England. As a social enterprise with social as well as economic goals, ECO wanted to evaluate its efforts to see what was working and what needed to be improved. Sue Bennett, the leader of ECO, started off by analysing ECO's income. We've changed the figures for this example.

Let's assume ECO's annual income turned out to be £50,000. Sue then looked through ECO's accounts to determine how they spent their turnover. She found that ECO spent a total of £30,000 in Appleby. She found that all of this local spending went to staff (£27,500) and suppliers (£2,500).

Sue then surveyed all of the local staff (12 employees plus herself) to see how they spent their income from ECO. Sue also surveyed her local suppliers (17 businesses) to see how they spent their general turnover. Sue discovered that ECO staff spent on average 46% of their incomes locally. Since she knew ECO paid the staff £27,500 total, this meant that staff spent about £12,650 locally. She found that local suppliers spent on average 29% of their turnover locally, which meant £725 for Appleby (£2,500 x 29%). So the total amount re-spent locally by ECO's staff and suppliers totalled £13,375 (£12,650 + £725).

Sue then added all these parts together:

Round 1, income:	£50,000
Round 2, ECO's spending:	£30,000
Round 3, spending by ECO's staff and suppliers:	£13,375
Total:	£93,375

Saying that ECO has generated about £93,000 for the local economy sounds impressive but becomes more meaningful when expressed as a proportion of what ECO actually earned. In Tayside, B&Bs generated £255,000 while hotels generated £235,875. The B&Bs are contributing more, but it doesn't sound *that* impressive a

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difference. But knowing that these contributions come from an initial income of £170,000 for hotels and just £100,000 for B&Bs changes your opinion, doesn't it? So ECO needed to present its information as a ratio:

$$\frac{\text{How much ECO generated for the local economy of Appleby}}{\text{How much income ECO received in the first place}}$$

If we plug in the numbers that we have from Sue, we find:

$$\frac{\pounds 93,375}{\pounds 50,000} = 1.87$$

That last figure, 1.87, is ECO's LM3 score. It means that for every £10 ECO receives as income, it generates £18.70 for the Appleby economy. Put another way, every blue pound coin that ECO takes in will rub off an additional 87p onto the hands of Appleby residents.

The point of LM3 is not just to understand your current impact; it's to improve it. Sue was disappointed with ECO's LM3 score, so she set about finding ways to increase it. One thing she had learned from LM3 was that many of ECO's suppliers were not half as local as their trading names implied they were. So ECO set about looking for genuinely local suppliers to provide these services. The results of LM3 also motivated ECO to set up a group with other organisations in Appleby to find ways to improve their local spending decisions. ECO believes that such a group will encourage cross-community partnerships and, by stressing local purchasing, make such partnerships a foundation of Appleby trade.

The diagram on the opposite page illustrates the flow of money for the ECO example.

In the next chapter we'll explore how you can calculate your own LM3 score with a detailed set of how-to instructions.your LM3 pathDefining your stakeholders

## Measuring money flows for ECO

### Money staying in Appleby

Round 1: £50,000



Round 2: £30,000  
Spending by ECO

ECO spent £27,500 on staff  
and contractors and £2,500 on  
suppliers of goods and services.



Round 3: £13,375  
Spending by ECO's staff and suppliers

People spent money on food,  
entertainment, and rent.  
Businesses spent money on  
similar items as ECO.

### Money leaking out of Appleby

£20,000

Like most businesses, ECO spent  
money outside the area on employer's  
NI and pensions for staff, fuel and  
utilities, and taxes.  
ECO also spent money on non-local  
staff and suppliers.

£16,625

Like all employees, ECO's staff spent  
money outside the area on income  
tax and home costs.  
People also spent money on non-local  
goods and entertainment,  
such as regional malls and cinemas.



# LM3: How-to guide



# Process Overview

So here we are at last – time to do it! In this chapter we work through the steps of the LM3 analysis. But first you need to choose how you will be using the tool. Although the overall process is the same, there are two options (paths), depending on whether your starting point is an organisation, or a group of people:



## Selecting your LM3 path

The principal difference between Path A and Path B is whom you will survey. The process is otherwise the same. If you are starting with the income of an organisation, such as a business, hospital or charity, then that is Path A. If you are starting with the income of a group of people, such as cashpoint users, grant or benefit recipients, then that is Path B.

If you aren't sure which one you're starting with, let's consider the pilot projects. Of the five project sectors, three started with the income of an organisation: government procurement, food and agriculture, and social enterprise. Two of our project sectors, access to finance and welfare benefit take-up campaigns, started with the income of a group of people. The income you start with doesn't necessarily mean that is the focus of your LM3 analysis; it just means that's your starting point.

To further clarify how you know which path you are following, let's look at government procurement and welfare benefit take-up as examples because they both involve the government. In the case of government procurement, our project leaders wanted to understand the impact of contract spending on the local economy.

The recipients of this money were organisations – contractors – so that's where they started. The welfare benefit take-up project leaders were interested in analysing how their benefits programs affected local people receiving this money, so they had to start with the income of those people.

In the LM3 projects so far, an organisational starting point has been more common, so we will give an overview of Path A first. We explain the Path B steps on the next page.

### **Overview: Path A**

#### **Round 1**

Your first step is to determine the initial income. This may be the income of an organisation (Path A), such as a business or charity; or of a group of people (Path B), such as cashpoint users or grant recipients.

Say your initial income is £10,000.

#### **Round 2**

In Round 2, you will determine how much your organisation spends locally versus non-locally. The principal items organisations spend money on in the local area tend to be: staff, contractors and sub-contractors, suppliers of goods and services, investment in the company, and rent/mortgage.

Say you discover your organisation spends £5,000 in the local area.

#### **Round 3**

In Round 3, you will determine how much the various local people and organisations who receive money from your organisation then re-spend their incomes. The organisations will spend money on similar local items as your organisation. The principal items people spend money on in the local area tend to be food, clothing, entertainment, and rent/mortgage.

Say you find out that these people and organisations spend a total of £2,000 in the local area.

### Calculating the LM3 score

You now have your three rounds. As we briefly showed in worked example 1 with ECO, you calculate your LM3 by adding up all three rounds and dividing by Round 1 to get a relative figure:

Round 1:	£10,000
Round 2:	£5,000
Round 3:	£2,000
Total:	£17,000
LM3:	$£17,000 \div £10,000 = 1.70$

That's it. Your LM3 = 1.70.

### Overview: Path B

If we had started with the income of a group of people, our Rounds 2 and 3 would look different. In Round 2, you would determine how much your group of people spent locally versus non-locally. In Round 3, you would determine how much the various businesses that people frequented then re-spent their incomes.

On the next two pages there are two flowcharts giving you a sense of how LM3 works for both Path A and Path B.

## Path A (starting with income to an organisation)

### Money staying in the local area

#### Round 1: Income of the organisation

#### Round 2:

#### Spending of the organisation

The types of items that tend to be local are:  
staff costs, suppliers of goods and services, and rent/mortgage.

#### Round 3:

#### Spending of people and businesses

For people, local items tend to be food, entertainment, and rent.  
Businesses spend money on similar items as your organisation.

### Money leaking out of the local area

Businesses spend money outside the local area on employer's NI and pensions for staff, non-local staff and suppliers, fuel and utilities, and taxes.

People spend money outside the local area on income tax and home costs, as well as non-local goods and entertainment, such as regional malls and cinemas.

## Path B (starting with income to a group of people)

### Money staying in the local area

**Round 1:** Income of the group of people



**Round 2:**  
Spending of the group of people  
The types of items that tend to be local are:  
food, entertainment (such as pubs), clothing, and rent.



**Round 3:**  
Spending of businesses  
The types of items that tend to be local are:  
staff costs, suppliers of goods and services, and rent/mortgage.

### Money leaking out of the local area

People spend money outside the local area on income tax and home costs, as well as non-local goods and entertainment, such as regional malls and cinemas.



Businesses spend money outside the local area on employer's NI and pensions for staff, non-local staff and suppliers, fuel and utilities, and taxes.



# Preparation

Whether you consider yourself more of the ‘jump in and do it’ type or the ‘always be prepared’ type, you should stop now and ask yourself ‘Why am I about to use LM3?’

You should be very clear about what you want to accomplish with your LM3 analysis. The reason for being clear on your goals is that it will influence the data you will need and how you present it. If you are not clear, you may find yourself having done a lot of work that doesn’t help you.

This requires thinking about what you care about and led you to measure local money flows in the first place, or why others might be interested in the results. Ask yourself the following four questions to guide your thinking:

- 1) *What* is the community or organisation whose money flows I want to understand?
- 2) *Why* do I want to understand its local money flows?
- 3) Once I understand local money flows, *whom* do I want to influence?
- 4) *What* can I say that will influence them, and *how* should I say it?

Suppose you are thinking of setting up a farmers’ market. You will need to understand the effect it will have on local money flows to:

- make sure the farmers’ market contributes as much as possible to the local economy
- show that the LM3 for a farmers’ market is higher than the alternative sources that people have for buying their food, such as supermarkets
- prove that the local economic impact from food purchasing in your area will rise as a result of setting up a farmers’ market
- compare the effect of a farmers’ market with other initiatives that you could pursue

If you are starting this on your own, you might want to run your ideas by family, friends or work colleagues to see if your logic makes sense.

## Defining your stakeholders

Stakeholders may be a bit of jargon, but it's a convenient term for the groups and individuals that have an interest, or stake, in the issue that you want to study and act upon.

Ask yourself: who is affected by what happens, and who can affect what happens? Those are your stakeholders.

Jot down a quick table with the following two headings, like this one:

Who is the stakeholder?	What is their stake?
farmers	sales outlet
local grocery store	competing for business
supermarket	competing for business
staff of supermarket	lose job if grocery store closes

It is worth spending time on this because there may be some answers that are far from obvious. When Rolls Royce closed down in Derby some 20 years ago, no-one spared a thought for the humble Derby and Ilkeston Window Cleaning Company, but Rolls Royce was their only client. As you work through your stakeholders list, you may produce some new and unexpected allies.

## How your work will be perceived

Before you begin the LM3 process, you should take into account how the various people involved in your work will react to it. Will they be hostile or receptive? Much of this has to do with your immediate rapport with the stakeholders. For instance, the Killamarsh councillors enjoyed a strong and amicable relationship with both the residents and businesses in the area. They were quite concerned about how surveying people right next to a cashpoint would be received by the cashpoint users, certain that residents would shy away. However, cashpoint users not only responded, but they did so with enthusiasm.

Conversely, Newham faced a challenge common to many local authorities. Each business owner they visited used the opportunity to vent all of his or her frustrations with Newham Council rather than simply responding to the survey.

Newham also encountered cultural differences. Many of the local businesses in Newham are owned and operated by people of South Asian descent, and some of

the business owners did not speak English as a first language. When we first planned the project, language was not discussed. Newham decided that the next time they perform such a survey they would use appropriate interpreters and provide translations of publicity and letters to encourage participation.

You may not face such a basic obstacle as language, but do keep in mind that your survey respondents may not see eye to eye with you on your LM3 work.

### **Teaming up and getting 'buy-in'**

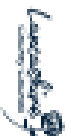
Once you've clarified the why and how of it all, the next step is to gather together like-minded individuals. Tim Boyde, who measured the LM3 of Cusgarne Organics in Cornwall, carried out the entire study on his own. Although he produced excellent results, his top tip was to get a group together to do the work, as two (or three or four...) heads are definitely better than one!

With a team in place, you will next want to get local buy-in. This means getting the people who will be involved in your LM3 analysis to agree to provide you with the information that you'll need. Having the buy-in of everyone, ranging from business owners to residents, will be extremely helpful. You are even more likely to get buy-in from these people by involving them in planning the LM3. However, you will have to strike a balance between involving people and just getting the work going.

While you may see the point of LM3, others will take a while to get it. And if they don't understand why you are asking them about their spending habits, they will not want to participate. You may face any variety of obstacles, so it is tremendously advantageous to get the word out in advance of surveying. Most LM3 projects have obtained coverage in their local newspapers. There are two sample articles on pages 40-41. The one on the left comes from the *Leader* in Killamarsh, which went out before the Parish Council began surveying. The article on the right comes from *The Grapevine*, Ibstock's local paper. Ibstock Community Enterprises (ICE) put articles in the local paper before, during, and after the LM3 process. They won a lot of community buy-in because residents not only learned why they should participate but also received updates on how the process was going.

This strategy proved especially useful in rural areas, where the local papers are widely distributed and read. In urban areas, you may need to mail your target individuals and businesses directly. A two-page newsletter, used by the Lancashire welfare benefit take-up project, appears on the opposite page. You can find other sample newsletters for download on the NEF website.

# Plugging the Leaks

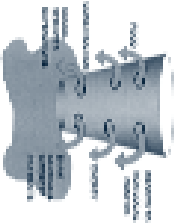


## How does the work of Lancashire County Council Welfare Rights help the Ribble Valley's economy?

This is the question that Lancashire County Council will be trying to answer over the coming months. A recent study by the former Alliance Institute for Gloucester City Council has shown that the area's £1,022 million in benefits that the Council has helped claimants receive has led to the creation of 162 jobs in Gloucestershire. Over to have a comparable year in Gloucestershire, the Ribble Valley had to fit provisions in the Ribble Valley had to fit provisions covering over £200,000 in extra benefits. In addition, a highly successful weekly advice surgery has been operating in Clitheroe leading to more benefits being claimed by those entitled to them.

But this £200,000 is only the first step, as some of this money is then re-spent in the local economy. We are therefore conducting a detailed study to find out where recipients spend the money, the Welfare Rights team has helped gather and what then happens to it. We will then be able to show how much money is generated for the local area from each £1 of claim benefits the Council helps people to claim.

THE LEAKY BUCKET  
shows how far an economy has come from its own resources.



The Countryside Agency and the New Economics Foundation (NEF) are working with 7 rural communities – one of which is the Ribble Valley - to develop tools, which can help to show how money circulates and leaves a community.

Spending money in the local area is good for the Ribble Valley. Every time money changes hands in the local area, it means income for a local person. The more times money circulates within the local area, the better it is for all of us. Money stays locally if it is spent on wages for local people, buying local products and services in the local area. Money leaves the Ribble Valley in energy bills, salaries to non-local people, goods to transport based outside the area, insurance premiums and loans.

For more information, please contact:  
Jim Hickson  
Welfare Rights Service Manager  
Lancashire County Council  
182 Marsh Lane  
Preston, PR1 8RR  
Tel: 01773 367100

E-mail: [jim.hickson@lancashire.gov.uk](mailto:jim.hickson@lancashire.gov.uk)  
Web site: [www.lancashire.gov.uk](http://www.lancashire.gov.uk)

## The Ribble Valley's Local Multiplier

An economic measurement tool called the 'multiplier' can be used to calculate the overall economic impact of Lancashire's County Council's work to raise the take-up levels of benefits that people are already entitled to.



The starting point in each situation is that the 10 x a centime to increase take-up of welfare benefits, to achieve income an extra £20,000 in welfare benefits. If 10% of this money is spent locally and the community also has in local economy only 10% of 10% (i.e. people and businesses tend to spend 10% of their money locally) then the extra £20,000 will generate an additional £6,666 of local spending. However, if only 5% of the extra benefits are spent locally and the local economy multiplier is also 10%, then the extra £20,000 will only generate an additional £2,111 of spending in the local area.

- So what happens to the economy? If:
- People receive their full entitlement to benefits, and
  - They spend money within the local economy; and
  - Local businesses and staff then re-spend this money locally by employing local people and ensuring goods locally.
- Then the local multiplier effect will be higher.
- However, if:
- People do not receive all the benefits to which they are entitled, and
  - People spend their money outside the Ribble Valley and
  - Businesses do not source locally.
- Then the local multiplier will not be as high.

### Our Action

#### Measuring Local Money Flows

To help show how raising welfare benefits take-up levels affects the local economy, in the Ribble Valley, NEF is working with Lancashire County Council Welfare Rights Service team to gather a measuring tool. The results will enable the council, plus local businesses and residents to easily understand the value of Welfare Rights work for the local economy.

Our method is intended to be as simple as possible – the idea being that everyone can understand their local economy. The results from this survey will form a key part of a workbook that will enable others within region groups across the country to carry out similar research.

# Leader

What's  
and  
Where

ECKINGTON'S more local paper

Friday Aug

All the news from the Eckington area every week

NEWS

## Where does your money go?

Council ask the question

**COUNCILLORS** in Killamarsh are trying to find out where you spend you money.

Working in partnership with an internationally respected not-for-profit group – the New Economics Foundation – Killamarsh Parish Council will be carrying out a survey to find out how much of the money withdrawn from cash machines in Killamarsh is spent locally.

Experts say the amount of the money taken from an ATM that stays within the local economy can make a huge difference to the vitality of any village or town.

"This is an important exercise that will help both Killamarsh and NEF," said parish council chair, Jane Holden.

"We hope that a large slice of the cash will be spent locally, helping local businesses and jobs. In a way, this could be seen as finding out whether the parish bus does help traders in their campaign to keep Killamarsh a lively and bustling place to shop."

The New Economics Foundation is working with Killamarsh to analyse the spending patterns there to help them to plot their future research and work with communities. The project in Killamarsh is focused on the relationship between the cashpoints and the local econo-

by  
**Don Collins**

my. This new and exciting way of looking at the functions of cash, and the role it has in community survival, makes the Killamarsh pilot an important project to be involved in.

Cllr Jane Holden also asked members of the Killamarsh community to try to help if they could.

"If you are approached by a researcher in Bridge Street or on the Precinct (bearing parish council identification) please do your best to help. We are hoping that the research will give us data that will help us to make further improvements to community life."

Justin Sacks, an economist with New Economics Foundation who recently visited the town, said: "I was very impressed by Killamarsh and the people I met there in the

main shopping street. I'm sure that we will all learn useful lessons from this exercise. We're very much looking forward to working with Killamarsh."

### Jewels on show

There is no need to travel to the Jewel House in the Tower of London because the Crown Jewels are right here at Crystal Peaks – albeit replicas!

For this week only, the popular shopping centre is playing host to a visually stunning display of Her Majesty's 'Crowns and Regalia' in a full scale exhibition.

The exhibition brings a little bit of history to life, with lots of features on the life and times of the present Queen.



# THE GRAPEVINE

Produced by Ibstock Community Enterprises Ltd for the people of Ibstock and surrounding areas.  
12 Chapel Street, Ibstock, Leicestershire LE17 6HE  
Phone 01530 262842 Fax 01530 263227 e-mail info@ibstock.org.uk

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THE GRAPEVINE

PAGE 1

## Keeping Money in Ibstock: Survey Shows that Two Thirds of Cashpoint Withdrawals Stay within Ibstock!

If you have used the cashpoint or building society at ICE's offices recently, you can't have failed to notice the survey forms that have been floating about! A big thank you is owed to the hundreds of you that have taken part – and if you haven't filled in a form yet – it's not too late as the survey is ongoing!

In the last issue of Grapevine, we told you about an exciting new project that ICE is taking part in, supported by the Countryside Agency and New Economics Foundation (NEF). The aim is to show how important the ICE-run Bank of Scotland cashpoint and the Hinckley and Rugby Building Society Agency point are for Ibstock's local businesses. The study has provided us with invaluable information on where money goes once it leaves either source of cash.

The first results from this survey, which has been ongoing since September, show that the vast majority of users (87%) live within Ibstock and that 72% of people use either of the cash sources at least once a week. So it is clear that both sources of cash are a much valued and used resource by Ibstock residents. In fact just 9% of respondents answered that they used any non-Ibstock sources of cash!

Furthermore, the study has proved that both sources are hugely

important in terms of supporting Ibstock businesses.  
**63% of the cash withdrawn from the cash point is spent in Ibstock!**  
**38% of the cash withdrawn from the building society is spent in Ibstock!**

Other towns and villages that have lost their last bank branch often report that local businesses have witnessed a drop in turnover of around 20%. Our study has shown that our local cash sources are invaluable in injecting much needed cash into our local economy.

The next stage of the study will be to analyse where the Ibstock businesses who receive this cash then spend their money – the idea being to draw up a map of Ibstock's local money flows! This will allow us to calculate how much money is generated within Ibstock for every £1 withdrawn from either source.

If you run a business in Ibstock that depends on cash and would like to help us with this study please get in touch with Rachel Elliott at the Community Shop. All information will be strictly confidential and you will only need to tell us what proportion of your takings is spent in Ibstock - not the actual amounts!

*Watch this space for further news.*

## TINDLES

### CHRISTMAS FAYRE

15th December 1pm

Lots of fun for all the family, craft stalls, games, raffle, tombolas, face painting, cake stall, refreshments, Santa's grotto. All proceeds to:

**"Wish upon a star"**

Adults 40p CHILD/CAF 20p

## ST DENYS PARISH CHURCH IBSTOCK

### CHRISTMAS TREE FESTIVAL

Starting Sunday 16th December  
Church open for viewing:

Monday 17 December 2pm to 7pm  
Wednesday 19 December pm to 7pm  
Saturday 22 December 10am to 4pm

### Christmas Concert

Friday 21 December  
7.30 pm in Church

Carols and readings by the Choir and friends (followed by Mince Pies and Mulled Wine)

Admission FREE – all welcome.

Service of nine lessons and carols  
Sunday 23rd December at 6.00pm.

Enquiries/tickets:

Olive Cooper 260390  
Sally Gray 260878

### Defining your local area

The next stage is to define what is 'local'. Our 10 projects used different criteria, and the local boundary for each ranged from a few square miles to the entire county. The area you choose matters for two reasons. First, your LM3 score will only apply to the local boundaries you've assigned. Spending at the neighbourhood, borough, county, and other levels will vary greatly. Based on your objectives, you will know what level of geographic boundary is appropriate for your LM3.

Second, the area you choose will affect the potential size of your LM3. Generally speaking, the smaller your area, the lower your potential LM3 score. Why? Say your local boundary is a neighbourhood. Unless you live on a road that provides every single thing that we humans need to live (and really, this would have to be a very long road!), people must go out of the area.

You should determine your local boundary based on the nature of your project. A way to guide your thinking if you are not sure what the appropriate local boundaries are is to ask yourself the following questions:

- 1) What area am I interested in?
- 2) What geographical area does the income for that area come from?
- 3) Where do suppliers come from?
- 4) What area is data available for?
- 5) What area are the stakeholders interested in?

Our 10 projects illustrate the different boundary options. For instance, the local government procurement projects used politically-defined boundaries (such as borough, district, parish or ward). Not surprisingly, Knowsley Metropolitan Borough Council took the borough of Knowsley to be the local area while North Norfolk District Council fixed on North Norfolk. They chose this type of boundary because the economic impact of a contract can be wider than the immediate locality of the project, and the councils had an interest in the economic impact on the local authority area as a whole.

Other projects attempted to define a tighter-knit neighbourhood or community. One of the social enterprise projects, LOCAL, considered spending within its Single Regeneration Budget (SRB) area to be local, as much of their funding was aimed towards the improvement of the SRB area. Another social enterprise with which we worked, Heeley City Farm, mapped out boundaries that they felt reflected the Heeley neighbourhood. Even though Heeley borders on Sheffield city centre, Heeley City Farm excluded it because they felt the city centre was essentially a different world,

Heeley City Farm Local Area Map – If its inside the dotted line, its local!



with all sorts of economic activity taking place that had nothing to do with (and more importantly, with no money flowing back to) the residents and businesses of the Heeley neighbourhood.

Another approach was taken by Cusgarne Organics, who used a 15-mile radius as the local area. The Cusgarne Organics project aimed at analysing the economic impact of locally-grown produce, which was not tied to a specific neighbourhood but the region.

If you're not sure, you can always try two areas. An early project in Crickhowell started with the whole of the Brecon Beacons, then focused in on Crickhowell. The Knowsley government procurement pilot was concerned with both Knowsley and Merseyside, so they asked survey respondents to identify whether they lived in Knowsley, Merseyside, or outside the area altogether.

Once you have chosen your local area boundaries, make sure they are clear to everyone. For instance, Heeley City Farm gave all business owners a map showing the boundaries of what they considered to be the local area. The business owners referred to this map when identifying which of their suppliers and staff were 'local'. The Heeley map on the previous page gives you an idea of how you can indicate local boundaries to those involved in your LM3 analysis.

### How long will it take?

We've tried to slim down the time needed to use LM3 as much as possible while maintaining the integrity of results, but it does take time. As all of our projects can attest, if you pursue LM3 as a side project, or put it on the back burner, it will probably drag on for months while other priorities arise.

For this reason, we strongly recommend you chart out a schedule, set aside specific time to work on LM3 each week, and complete the process *within two months* – or faster if you can. For those who are really pushed for time, we discuss a lighter version, LM2, on page 83. The amount of time you will need for LM3 depends on the scope of your analysis, but here is a general guideline for time management. It's better to be realistic and exceed expectations than to set tight deadlines for yourself and come away without enough data to ensure robust results.

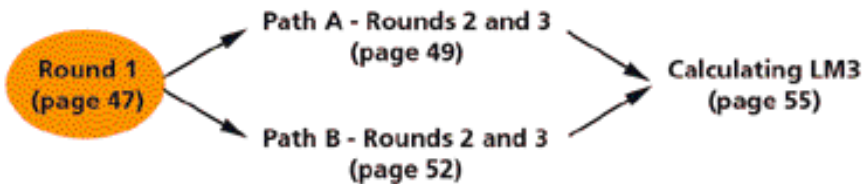
### Timing

As they say, timing is everything. You probably have an intuitive sense of when is a good time to do your surveying. For instance, some of our projects postponed surveying until after the summer months because the majority of their target survey

Stage	Path A	Path B
<b>Preparation</b>	<b>5-10 hours:</b> Give yourself or your group a day to sit down and brainstorm on this project. Or split this into two sessions to brainstorm, mull ideas over and reconvene. Plan on spending some time to prepare any press releases before starting LM3.	<b>10-15 hours:</b> Give yourself or your group a day to sit down and brainstorm on this project. Or split this into two sessions to brainstorm, mull ideas over and reconvene. You'll need to carefully plan media coverage to reach your target group.
<b>Round 1</b>	<b>1-2 hours:</b> Pulling out the organisation's income shouldn't take long at all. You might spend more time scheduling a time to sit down than it takes to actually get the figure.	<b>2-3 hours:</b> Working out the initial income shouldn't take too long at all. You might spend more time scheduling a time for the group to sit down than it takes to actually get the figure.
<b>Round 2</b>	<b>1-3 hours:</b> Working out the organisation's spending will be a breeze unless there's a lot to sift through, but after a few hours you should have a completed survey and know how the organisation spends it turnover, or at least a usable spending breakdown from the business itself.	<b>5-15 hours:</b> Depends on whether you need to survey by post (most time-consuming) or face-to-face. Then you'll need time to turn the surveys into meaningful information (like computing local spending).
<b>Round 3</b>	<b>5-20 hours:</b> Depends on how many local staff and suppliers there are, how receptive they are to your project, and how well they understand the survey. You should budget a few hours over two weeks or so. You may also need to write letters, meet staff and suppliers, and even re-survey if you get a poor response rate. You'll also need a day to tidy up the survey responses.	<b>5-20 hours:</b> Depends on what you are interested in finding and how much time you have. Allow at least a few hours over a week or two to survey at least five local businesses. Then a day to turn the surveys into meaningful information.
<b>Calculation</b>	<b>1-2 hours:</b> This is really the quickest step once you have everything else. But give yourself some time to celebrate a job well done!	<b>1-2 hours:</b> Path B takes longer but this step is just as quick as Path A. Give yourselves a big pat on the back!

respondents were away. Also, when surveying larger numbers of people (such as cashpoint users), our projects wanted a representative sample and felt that summer was misleading. You should consider not only the time of year but also the time of day and the day of the week. Our projects had to work around business owners' schedules to survey them, which means you may need to schedule some early morning, evening and weekend appointments.

# Round 1: determining initial income



Round 1 should hopefully be a piece of cake: it is the least complicated step in the process. For most of the projects, people spent more time setting up a meeting with the necessary organisations than actually determining this figure!

The only major complication in Round 1 is clarifying ‘what am I measuring?’ For instance, NEF worked with Katie Trent and the Soil Association on a project considering the organic meat industry of Graig Farm Organics. Since Katie wanted only to measure impacts related to the meat industry, she needed to separate this out from the farm’s other produce, such as dairy, bread, groceries, fruits and vegetables. In this instance, such separation was feasible because the farm owner kept detailed accounts of meat-related activities versus other activities. But if she had not been able to separate out the farm’s meat-related activities, she would have arrived instead at an LM3 for the whole farm.

## What to look for

If you don’t run an organisation, you may wonder how this type of information can be obtained. Fear not, every organisation keeps accounts of their income and their expenditures, though we can’t vouch for how detailed these accounts will be. The first consideration is determining which portion is *net* income, which is income after VAT. Again, don’t worry about this too much because your organisation will know exactly how much went to them and what went to good old Customs and Excise. Also, it is easiest to use annual income because that is how organisations file their accounts with government. Annual income will cover any seasonal variations.

So knowing that you're looking for 'net annual income' (you can use that phrase to sound smart), you simply need to sit down with your organisation and have them find the figures. This shouldn't take more than an hour.

### No income figure

One last thing: if you simply cannot get income data for Round 1, that *does not* mean you cannot continue with LM3, but it does mean that you won't know the true local economic impact of your analysis. Say, for instance, that our Tayside B&Bs produced an LM3 of 2.44 while the hotels produced an LM3 of 1.24. The B&Bs appear to be better for the Tayside economy than the hotels. But what if we learned that the total income of B&Bs was £10,000 while the total income of hotels was £1,000,000? We would know that while the B&Bs are good for Tayside, there's very little money going their way. This would be useful to know because maybe we could develop a strategy to increase the number of B&Bs or to increase their quality so there is more demand for them.

### Preparing for Round 2

So we've finished with Round 1. Before you move onto Round 2, you need to determine which path you're taking, Path A for the income of an organisation or Path B for the income of a group of people. While there are general similarities, we discuss each one separately to make it clearer. You should probably skip the section that does not apply to your project.

First we discuss Path A, focusing on organisations. If you are pursuing Path B, focusing on a group of people, please go to page 52. After completing all three rounds, we discuss calculating your LM3 (no matter which path you take) on page 55.

# Path A



## Path A, Round 2: Spending of the initial organisation

You already know the initial income from Round 1. Now you need to determine how the organisation *spends* this money. Similar to calculating income, most organisations maintain accounts of how they spend their turnover. In fact, it is quite unlikely that your organisation won't know how much it spends on other organisations and people. The only trouble is pulling together this information. Many organisations now have computerised accounts and can pull out the information in minutes; others keep a shoebox of receipts, so this part might take a little longer. Clearly the extent of the task depends on how big your organisation is and how much data you need to access. If you can time your study for a few months after autumn tax time, your organisation may have already done this work for the past year.

If you are analysing a specific part of an organisation, such as the meat-related activities of Graig Farm Organics, then you need to make sure you only look at spending related to these activities. Most business owners have a good sense of roughly what they spend on various activities and how long it takes; they'd be out of business if they didn't.

You can take down your initial organisation's spending information in any format you wish, but you must keep track of: overall spending, how local money is spent, and

how non-local money is spent. You may want to use an organisational survey to do this, to guide your thinking as you sift through expenditures. However, feel free to make adjustments to the survey categories based on how the organisation spends its money. You can see a generic organisational survey form in Appendix 2. We showed you a schematic overview for how money flows in your LM3 analysis on page 34.

Every organisation spends money in different ways, but we have found so far that they tend to spend the majority of their *local* money on the following items:

- staff costs
- contractors and subcontractors
- suppliers of goods and services
- rent or mortgage

We'll discuss these items in more detail in the next section.

### **Path A, Round 3: spending of local staff, suppliers and others**

You know the income of your initial organisation. You know how your initial organisation spends its turnover (on various people and organisations) locally. You now need to determine how *those* local people and organisations then spend their money. Easier said than done?

Before you panic, keep in mind two things:

- 1) You need only survey people and businesses located in the local area.
- 2) If there are an extraordinary number of people and/or businesses to survey, there are acceptable shortcuts.

Before you end your meeting with the initial organisation, you should determine whom you are surveying. You will need to determine which staff and suppliers are local – which is why a clearly defined boundary is helpful. You should also ask for a breakdown of spending on each employee and supplier, if possible. Then you should request your organisation ring those organisations on your behalf, so they'll understand the purpose of your analysis and expect your visit.

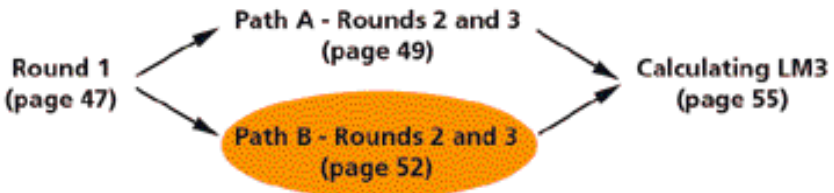
### Path A: Any questions?

At this point you may have a lot of technical questions like:

- How do I know which items are local and which aren't?
- How do I know the staff and supplier surveys are accurate?
- What do I do if I don't get any surveys back?
- What survey techniques should I use?
- If there are a lot of staff, how do I take a sample?

Fear not, we address these problems in the troubleshooting guide.

# Path B



As we've warned, undertaking an LM3 starting with a group of people is a little more complex and time-consuming than starting with an organisation (Path A). Some of our projects using Path B even had to think carefully before proceeding on to Round 3.

## Path B, Round 2: Spending of the initial group of people

As we discussed in Round 1, you need to determine the income, whether partial or whole, of your initial group of people. For Round 2, your strategy for surveying the group of people will vary depending on your project and how much cooperation you have from others.

For instance, the access to finance projects surveyed people in person while our welfare benefit take-up projects posted surveys. The two access to finance projects took different routes for in-person surveying. Ibstock Community Enterprises (ICE) operated the building society agency, so they issued surveys to customers in addition to approaching people using the cashpoint outside the front door. Killamarsh Parish Council's project focused on a cashpoint, so they had to survey people next to the cashpoint. As you can imagine, it was easier for ICE to get people to complete the surveys since they had the trust of the customers already. You can see a generic personal survey form in Appendix 2 or downloadable from our website. We showed you a schematic overview for how money flows in your LM3 analysis on page 35.

The kinds of items your initial group of people spends money on will vary depending on the type of LM3 you pursue. However, if you are pursuing an LM3 where you are

surveying how people generally spend their income, such as the cashpoint and welfare benefit take-up projects, your results will probably be quite consistent. From the projects so far, we find that people tend to spend the majority of their *local* money on the following items.

- food
- rent or mortgage
- clothing
- entertainment

No surprises here. The main variation is what proportion of their budgets these items comprise. Generally speaking, lower income groups spend a greater percentage of their income on these items. The types of items that start to increase in share with greater income are: entertainment, services, and travel/holiday. However, your LM3 might be looking at a specific aspect of people's spending. Say for instance that you are analysing a grant program with spending stipulations, like a health program. In that instance, your initial group of people will spend money at a very specific set of businesses, such as pharmacies and hospitals.

From the answers supplied in Round 2, you can then generate a list of local businesses to survey regarding their own spending. Depending on the nature of your LM3, this list could range from a handful of businesses to dozens.

### **Path B, Round 3: Spending of local businesses**

You now know the income of your initial group of people. You know how your initial group of people spends its income on various products and services provided by local businesses. Finally, you need to determine how those local businesses then spend *their* money.

Before you panic, keep in mind two things:

- 1) You need only survey businesses located in the local area.
- 2) If there are an extraordinary number of businesses to survey, there are acceptable shortcuts.

With your list of local businesses from the Round 2 personal surveys, you will then go to as many local businesses as you can and survey them regarding their spending. If you don't have a good sense of the geography of your local area, the organisation that supplied you with your Round 1 information should know which businesses are in the local area. If you are working on this project in cooperation with that organisation, such as the council administering welfare benefits, then you should request they ring those businesses on your behalf, so they'll understand the purpose

of your analysis and expect your visit. Every organisation spends money in different ways, but we have found so far that they tend to spend the majority of their *local* money on the following items:

- staff costs
- contractors and subcontractors
- suppliers of goods and services
- rent or mortgage

We'll discuss these items in more detail in the next chapter. You can see a generic organisational survey form in Appendix 2, or downloadable from our website.

### Pursuing Round 3

Round 3 might be quite straightforward, in which case you should go ahead and do it to get the full LM3 score. For instance, if you are analysing the impact of a health subsidy scheme, your initial group of people will spend that money on a very specific set of organisations, such as hospitals and chemists.

But if you are pursuing an LM3 similar to our cashpoint projects, you may be facing the prospect of surveying too many businesses. For example, Killamarsh found that people spent at least 50% of their cashpoint withdrawal on the high street right after withdrawing the money, but when they started to survey businesses on the high street, they simply ran out of time. Even so, while they did not manage to get an LM3 score, they gathered enough information to prove their case.

You will have to evaluate the pros and cons of pursuing Round 3 if you are in a similar position. We recommend talking to at least a few businesses even if you decide against it. For example, in Newham we quickly discovered that in a typical shop, staff tended to be local but most supplies were not – because most shops imported South Asian goods. This in itself was a useful finding for the Council.

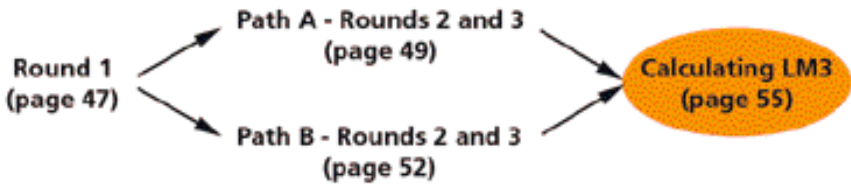
### Path B: Any questions?

At this point you may have a lot of technical questions like:

- How do I take a sample of my initial group of people?
- Can I take a sample of local businesses?
- How do I know which items are local and which aren't?
- How do I know the surveys are accurate?
- What are survey techniques I should use?

Fear not, we address these problems in the troubleshooting guide.

# Calculating the LM3 score



No matter whether you've pursued Path A or Path B, the process of reviewing surveys and calculating LM3 is the same.

Once you have the completed surveys in hand, you need to review them to make sure they are usable. You will need to discard surveys that appear to be incomplete or inaccurate. If you end up with very few surveys, you need to either survey again or exclude that group from calculation. Then you need to add or average the surveys together. You can do this by hand or using a computer or calculator. You'll find a template table in Appendix 4 and downloadable from our website.

Once you've got a total figure for Round 2 and a total figure for Round 3, the very simple formula for calculating the LM3 score is:

$$\frac{\text{Round 1} + \text{Round 2} + \text{Round 3}}{\text{(divided by) Round 1}} = \text{LM3}$$

You divide the total of all three rounds by the income figure you obtained for Round 1 to determine the ratio of how the additional money generated in the local economy relates to the income at the start. We suggest stating your LM3 score using two decimal places, such as 2.04.

The LM3 score tells you the total income generated for your local economy, including the initial income of Round 1 (if you want to determine the *additional* income generated for your local economy, simply subtract 1 from your LM3). For an LM3 score of 2.04, you could say that 'every £1 of income for my organisation or group of

## The Money Trail

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people generates £2.04 for the local economy.’ Or that ‘every £1 of income generates an *additional* £1.04 ( $£1.04 = 2.04 - 1$ ) for the local economy.’

While you have the steps running through your mind, let’s look at another worked example to see the LM3 in action again.

# Worked Example 2:

## LOCAL

Longley Organised Community Association Ltd. (LOCAL) is a social enterprise in a deprived neighbourhood of Sheffield whose mission is to revitalise the Longley shopping area. Ian Drayton, the leader of LOCAL, was interested in finding out if the organisation was achieving what it was promoting. This was to be a Path A LM3 because we started with the income of an organisation, LOCAL.

Since LOCAL was leading on this project, Rounds 1 and 2 weren't too troublesome. We decided to use the previous year's financials for these rounds, and picking out the previous year's income was straightforward. The income, combining all government grants and income from the community café operated by LOCAL, totalled £200,000 (again, we've changed the figures around for this example).

LOCAL uses computerised accounts, so Ian ran a report to find out how much LOCAL spent in the last year. Since LOCAL is a social enterprise with public funding, it spends virtually all of its income each year (versus saving or investing some). So the total spending was also roughly £200,000. The report we ran listed spending by recipient, so we had a long list of suppliers and contractors to run through. Ian knew which suppliers fell in the local area, which we had defined as SRB5, so we separated those on the list. The total spending on local suppliers came to £36,000. We looked at the payroll and found the total spending on local staff in the previous year was £72,000.

At this point, Ian summarised this information so we could see how LOCAL directly impacted the local economy:

Total income:	£200,000
Total spent locally:	£108,000
Staff:	72,000
Businesses:	36,000
Local re-spend:	54%

Ian found this figure interesting. Most staff were local, so he knew this figure couldn't go higher, but he wondered about the local supplier side of LOCAL's

## The Money Trail

spending. On one hand, there weren't many businesses they could use in the immediate area, but on the other hand they would certainly try to swing business towards them if that would truly benefit the local area (and deliver what LOCAL needed, of course).

Ian reviewed all the ways LOCAL spent money locally, and all of them were to either staff or suppliers. The list of suppliers was quite long, but many of them received small sums of money, anywhere from £1-10 over the year, so Ian excluded them from surveying. This left Ian with four suppliers in the local area.

With this information in hand, Ian surveyed LOCAL's local staff and four suppliers. The surveys from the four suppliers showed a range of local spending rates:

Supplier 1:	55%
Supplier 2:	11%
Supplier 3:	2%
Supplier 4:	17%

To be as accurate as possible, Ian applied the amounts LOCAL spent on the four suppliers to determine what the true re-spend was. Ian knew how much LOCAL spent on each supplier from the report he had produced earlier:

Supplier	Income from LOCAL	Local re-spend rate	Total generated for local area
Supplier 1	£4,400	55%	£2,420
Supplier 2	£13,800	11%	£1,518
Supplier 3	£11,300	2%	£226
Supplier 4	£5,600	17%	£952
<b>Total</b>	<b>£35,100</b>	<b>15%</b>	<b>£5,116</b>

These four suppliers accounted for most of LOCAL's supplier spending. Since Ian didn't know how much the other suppliers spent locally, he took the average from the above four suppliers and calculated that:

$$£5,116 \div £35,100 = 15\%$$

The four suppliers accounted for £35,100 of the £36,000 LOCAL spent on suppliers, which meant the other suppliers (the ones Ian didn't survey) accounted for £900 of LOCAL's supplier spending. So:

$$£900 \times 15\% = £135$$

The total re-spend by LOCAL's suppliers was therefore  $£5,116 + £135 = £5,251$ .

Ian did the same thing for the local staff, yielding a total re-spend by staff of £20,160, which is an average re-spend rate of 28% ( $£20,160 \div £72,000$ ).

So Ian wanted to find LOCAL's LM3 now that he had all of the information:

Round 1:	£200,000
Round 2:	£108,000
Staff:	36,000
Suppliers:	72,000
Round 3:	£25,411
Staff:	20,160
Suppliers:	5,251
Total:	£333,411

So we plug this into the LM3 formula:

$$\frac{£200,000 + £108,000 + £25,411}{£200,000} = 1.67$$

### Is that all there is to it?

We've explained how to use LM3, and worked through a real example to get an LM3 score of 1.67. Now you may be wondering:

- What if my LM3 doesn't go as smoothly as your worked examples?
- How do I know if my LM3 is correct?
- What kind of values should I expect?
- I'm disappointed with my LM3 figure. What should I do?

If so, it's time to do some troubleshooting.



# LM3: Troubleshooting



# Surveying and data collection

The most common difficulties you may encounter are in:

- surveying and data collection
- assessing survey responses
- calculating your LM3

The troubleshooting guide covers these aspects, highlighting specific concerns that you may have depending on your project type.

Surveying is a crucial part of the LM3. We learned a lot of lessons from our projects about what to do and most definitely what not to do. While surveying might be a little time-consuming, and even at moments exasperating, it will also be the most enlightening, thought-provoking, and maybe even surprising part of the LM3 process for you. There is an additional benefit of surveying people: changing hearts and minds. For a lot of our projects, the simple act of asking people where they spent their money got them thinking about local economy issues.

When we started the projects, we used surveys asking for itemised spending as a percentage of total spending. We did this because we expected most people and organisations would be reluctant to disclose actual pound figures. To our surprise, we found that most people were not bothered about disclosing this information. Moreover, people found it easier to fill out the surveys when all they had to do was itemise their real budgets rather than calculating percentages.

The survey forms on the following two pages are for people and organisations that don't mind disclosing cash amounts. You can also download this from our website and adapt it for your own LM3. You may be unlucky of course and find that the survey respondents for your LM3 analysis don't want to disclose their actual spending amounts, so we've provided an alternative survey asking for percentages in Appendix 2.



## Measuring local money flows at JUSTIN'S JAM SHOP

### Business Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Company Name THE STRAWBERRY STORE  
Address 42 BERRY LANE  
Contact Name and Position R. SMITH, OWNER  
Where do you live?  Local  Non-Local - Please state where  
(Please circle)

#### How is the organisation's turnover spent?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing **survey B**.  
For each row (e.g., 'Staff costs'), the 'Total £' should be the total of '£ Local' and '£ Non-local'

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
Example - using £ figures	£1,400	£500	£900	John's Shoes
Staff costs (excl. NI and pension)	60,000	47,500	12,500	
NI, pensions, and training	12,000	-	12,000	
Drawings (if sole owner)	18,750	18,750	-	
Director's fees and bonuses (if partnership)	-	-	-	
Supplies	92,170	67,400	24,770	Jan's Farm Gloss Shop
Subcontractors	5,200	-	5,200	
<input checked="" type="radio"/> Rent/Mortgage	550	-	550	
Fuel & Utilities	150	-	150	
Repairs & Maintenance	270	200	70	roof wiring
New Investment	1,600	1,200	400	bdg. expansion - 2013 Construction
Insurance	725	-	725	
Taxes (VAT, Corporation Tax and business rates)	14,085	-	14,085	
Loan repayments	2,700	2,700	-	Lloyds
Other (please specify) <u>Donations</u>	100	100	-	local football club

Total Turnover = £ 208,300

If you rent, please circle one of the following:

Private Landlord (Local)   Private Landlord (Non-local)

If you have any questions regarding this survey please do not hesitate  
to contact JUSTIN SACKS at 020 9099 2800



## Measuring local money flows at JUSTIN'S JAM SHOP

### Personal Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Employer Company

THE STRAWBERRY STORE

Where do you live?  
(Please circle)



Non-Local - Please state where

#### How do you spend your income?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing **survey B**.  
For each row (e.g., 'Food'), the 'Total £' should be the total of '£ Local' and '£ Non-local'

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
Example - using £ figures	£1,400	£560	£840	John's Shoes
Income tax	600	-	600	
Food (excl. restaurants/take-away)	400	400	-	Tesco
Entertainment (e.g. restaurants, video rental, betting, sport, pub)	350	250	100	Smith's, Olde Pub, Ladbrokes
Clothes	200	120	80	Marks & Spencer, Byrite
DIY/Garden/Household appliances and items	50	50	-	B&Q
Transportation (e.g. taxis, car tax, bus fares, petrol)	120	20	100	bus
Services (e.g. babysitting, window cleaners)	85	60	15	child minder, plumber
Rent <u>Mortgage</u>	350	350	-	Coop
Council Tax	25	25	-	
Home costs (fuel and water, phone, TV tax, etc.)	50	-	50	
Loan Repayments	-	-	-	
Savings	100	100	-	HSBC
Other (please specify) <u>Holiday</u>	75	-	75	

Total Spending = £ 2,405

If you rent, please circle one of the following:

Private Landlord  
(Local)

Private Landlord  
(Non-local)

Housing  
Association

Council  
Tenant

If you have any questions regarding this survey please do not hesitate  
to contact JUSTIN SACKS at 020 7089 2800

### Spending items

The sample surveys on the previous two pages show you how your surveys could look. Before you set about adapting them to your own LM3 analysis, we should explain how they work. We've divided up the survey among basic spending categories. For the organisational survey, we use categories and terminology that organisations tend to use when filing their accounts. While the language is intended to make sense to business owners, it may not make sense to you. So let's go over a few of these terms.

#### Staff costs

As you can guess, staff costs are basically salaries to staff. This is separated from National Insurance (NI) and pensions because these go straight to national government. Also remind the organisation that, if the organisation is a solely owned business, then the owner counts as local staff if s/he lives locally.

Since we are most concerned with income, make sure your organisation indicates to you how much money goes to local staff, not how many jobs are local. Using the number of local jobs is not indicative of the wealth created by an organisation. For instance, the Wales Development Agency (WDA) granted an automotive exhaust manufacturer money to put a plant in Tredeger<sup>4</sup>. A stipulation of this funding was that the company employ at least 105 people. The WDA didn't specify the residence of these employees because it assumed that most would be local, as the manufacturing plant was located in the middle of the Welsh Valleys. Time went by and the WDA found that not much had changed in Tredeger. When they looked at the plant's payroll, they learned that even though the plant employed 105 people, all of the high-skilled staff came from outside the area, primarily from the border region near England.

What about non-local staff? It is quite likely that non-local staff spend some money, such as lunch purchases, in the local area. While you are welcome to survey non-local staff in addition to local staff, we have excluded them from our analysis to make it more manageable. Yes, you will be missing some of this spending in your LM3 analysis, but LM3 is an indicator, so you don't have to capture every bit of data with 100% accuracy.

#### Contractors and subcontractors

If you are unfamiliar with the term 'contractor', it simply means someone else the organisation has hired (contracted) to perform some portion of the organisation's

work. A contractor can be a person or an organisation. If your initial organisation spends money on a contractor, you should determine if it's a person or an organisation if you plan to follow up and survey them. A subcontractor is simply someone a contractor then hires to perform work.

### **Suppliers of goods and services**

We use the term suppliers throughout discussion of LM3 very broadly. Any organisation that supplies your initial organisation with some sort of good or service is a supplier. So all organisations use suppliers to some extent, even if it's just the odd pencil. Suppliers of goods can range from construction materials to office supplies. Suppliers of services can range from cleaning to catering. In case you are already reeling, know that you won't need to survey all of the suppliers.

What about non-local suppliers? It is possible that non-local suppliers spend money in your local area as well. But again, while you are welcome to survey non-local suppliers in addition to local ones, we have excluded them from our analysis to make it more manageable.

### **Other business spending**

Our generic surveys contain a few items that may be unfamiliar to you if you do not run a business. While staff receive pay checks that clearly define their income, business owners aren't paid a salary; they take whatever's left over. The amount they withdraw for themselves is termed 'drawings'. This, too, counts as local money if the owner lives in the local area. Drawings apply only to businesses owned by a single person. If the business is a partnership or incorporated, then there may be a more regimented system of director's fees and bonuses, which more closely resembles a salary.

We also list 'new investment'. Many businesses take their earnings and re-invest it in the company, such as purchasing new furniture or expanding the building. As far as you're concerned, locally-purchased investments are the same as any other local spending. However, we separate it out because most businesses separate it on their own accounts.

### **Taxes**

All taxes, including business rates, are non-local because they go straight to national government. It is very important to obtain this information because you want to know what goes into people's pockets. In the business world, this figure is called 'net

income', and for people this figure is called 'disposable income'. The one exception to this is council tax. You can consider council tax local if the local boundaries of your LM3 are the borough, district, or whatever size your local authority is.

### **Rent or mortgage**

Rent or mortgage is often a small portion of an organisation's budget though a sizable portion of individuals'. If the organisation or person pays rent to a local landlord, you should consider this to be local.

### **Home costs**

Home costs are items such as electricity, gas, water, and television tax. These items are almost always non-local. The only way that, for instance, electricity would be local was if you had your own power generator. It is possible that survey respondents will enter spending on items such as toilet paper and washing up liquid in this category, though these are meant to be included under 'DIY/Garden/Household appliances and items'. However, these amounts are small, so you can always assume that 'Home costs' are entirely non-local.

### **Transportation**

Judging what people are including under 'Transportation', and what should be considered local is tougher for this category because it clearly involves going from one place to another. You can usually consider transportation costs to be non-local because most money leaves the area. However, if you are dealing with a geographic area that is large, such as a borough or county, then you can count transportation costs as local.

## **Revising and adapting your surveys**

In preparation for your LM3 analysis, you will want to take the generic surveys we provide and adapt them to your own project. The generic surveys in Appendix 2 are provided as a template for your use. They may be fine as they are (save for a few changes such as your contact details), or you may need to adapt them for your specific project. No matter what form your survey takes, we highly recommend that you try your survey out on a family member or colleague before going full steam ahead. And, if you want to be extra careful, try testing it out on someone who doesn't know you at all. If your guinea pigs have trouble, that will highlight for you the parts of the survey that need to be altered.

There are many ways you might adapt our template, so we won't speculate on what to do. Most people want to simplify the surveys as much as possible. This is fine, but you must make sure to separate out items that could throw off your calculations. For instance, our generic personal survey separates out council tax from other home costs. If you are performing a neighbourhood-level LM3, then you will consider both of these to be non-local, so you could lump them together. We have separated them out here because, if you are conducting a borough-wide survey, then council tax is local while home costs are still non-local. If we left those items lumped together, we wouldn't know what proportion council tax comprised.

You may also want to pull out items that are of specific importance to you. The Graig Farm Organics project focused on meat, so spending at supermarkets versus other local grocery stores mattered a lot. Since we couldn't tell how much of people's local food spending was at supermarkets versus grocery stores, the project leader felt it would be better to have a separate line item for supermarkets.

### How to go about surveying

Before surveying any people or organisations, you should very clearly explain either in person or in writing who you are, why you are conducting this research, and what you will do with the results.

Surveying in person is the best bet for accurate results, but if that's not possible, you should send each person or organisation a packet containing:

- spending survey
- cover letter explaining the project
- sample completed survey
- map of local area, if not obvious
- and perhaps a fun incentive gift

We showed you a sample map from the Heeley City Farm project on page 43, and on the next page is a sample cover letter that Heeley City Farm sent to local businesses. You can also download a template letter from our website.



# Heeley City Farm

Richards Road, Sheffield S2 3DT

Tel: (0114) 258 0482 Fax: 255 1400 Cofid: 258 0244

Email: farm@heeleyfarm.org.uk Internet: www.heeleyfarm.org.uk

Justin's Jam Factory  
34 Marmalade Mews  
Sheffield S2 3MM

October 2002

Dear Friend,

## Plugging the Leaks in Heeley

I am writing to you as a supplier to Heeley City Farm and to ask for your help with some research, which I hope will help the Farm (and yourselves) in promoting the local economy here in south Sheffield. Please take a moment to read the enclosed leaflet, which describes the Plugging the Leaks project.

We are very pleased that the farm has been selected by the New Economics Foundation for this study and I hope that you can help us by providing vital information. Without your help we will not be able to complete the research.

It is important that we collect the data as quickly as possible and the timescale we have been set is the end October. Please could you try to complete the enclosed form and return it to us by **Thursday 24<sup>th</sup> October 2002**.

We have included two versions of the form and a completed example. Please use Form A if you can but Form B is provided should you wish to disclose just percentages. In either situation, the information you provide will be dealt with in strictest confidence.

We will try to contact you by telephone to offer any help we can but in the meantime, if you have any questions or problems with the project or the form, please do not hesitate to get in touch. You can contact me on the above number.

May I thank you in anticipation for your help and wish you and your staff the very best for a prosperous year ahead.

Yours sincerely,

David Gray



are you doing 'your bit'?

Heeley City Farm is a company limited by guarantee without share capital. Reg. No. 2077422. VAT Reg. No. 640 2643 17. Reg. Charity No. 512025.  
Member of the Federation of City Farms & Community Gardens. Honorary Patrons: Mrs Dore Adams, Sir Norman Adams OBE, Miss Marie MP

### Survey groups

If you are pursuing a Path A LM3, the principal groups you will need to survey include:

- staff
- contractors and subcontractors
- suppliers of goods and services

If you are pursuing a Path B LM3, the principal groups you will need to survey include:

- initial group of people
- organisations receiving income from the group of people

### Staff

For many of our projects, the owner or director of the initial organisation managed this portion of the process. If that is the case for you, that's a lot less work (unless you are the organisation's owner or director!). If you work at the organisation, you may find more trouble securing surveys since staff may not want you to see their answers. Even though their name will not appear on the survey, their concern is understandable. If this is the case, you might consider having someone from outside the organisation lead this part of the project. That person can combine the results, thus preserving confidentiality.

### Businesses

Supplier surveying will go most smoothly if your organisation contacts them beforehand. If you work at the initial organisation, then you probably have a rapport with your suppliers; however, if you are an outsider, then it is important to have your initial organisation make some calls in advance. If possible, call ahead and schedule a time to sit down with the business owner or financial officer. Send them a survey packet first so they can see what kind of information you are looking for. The supplier survey should not take much more than 15 minutes per supplier. If meeting with a supplier in person is not possible, post them the survey packet.

Since you are most likely surveying no more than three or so suppliers, you should be able to complete surveying over 1-2 hours' time. While it would be most time efficient to visit all suppliers on the same day, you may need to schedule a few visits on different days based on their schedules.

### Initial group of people

If you are surveying in person, you must first make sure your survey is quick and easy to complete. ICE issued surveys to bank users who completed the survey on their own in the bank. Killamarsh surveyed cashpoint users using an interview technique. The interview technique made the process go faster since the councillors could explain the questions quickly, and there was no need to set up a clumsy survey table for cashpoint users. The interview technique also fostered informal conversations with cashpoint users, which were perhaps more informative than the surveys themselves!

If you are pursuing a Path B LM3, then getting the word out in advance of surveying will be particularly helpful.

### Surveying in person versus other techniques

Surveying in person will guarantee more accurate results, in addition to informal information gathering. If you are surveying staff, it is easiest and most time efficient to present your project and then follow up with surveys to each staff person. This also offers a chance for group discussion about LM3 and the local economy. If scheduling a time to present your project is unfeasible, then you can simply explain LM3 to each staff person you survey. In some cases, meeting with staff will not be possible, and you should post a survey packet to each person.

A mixed approach is to post surveys to staff and follow up with a review of their survey in person. This offers you the chance to clarify any errors or confusing parts on their surveys. You can usually budget a day to go in and do this with all available staff, and reviewing the survey takes about 15 minutes. Yet another approach is to post surveys and only follow up in person with those staff who have completed the survey in a confusing or incorrect way. This saves you time since you only need to review a few surveys.

If you are surveying businesses, you should be prepared to meet with them during odd hours, such as early morning, early evening, or weekends. Since small business owners usually operate their businesses, the owners can only meet with you when the business is not running. Posting a survey packet and following up with a telephone call is the best strategy because it gives the business owner a chance to understand who you are and what you are doing. Business owners may otherwise be wary of your project and therefore reluctant to participate.

If you are surveying a group of people in person, then the key is to make surveys quick and easy to complete – no more than five minutes. The interview technique

can speed up survey time, though make sure survey respondents have a clear picture of the overall purpose of the survey; otherwise, they may give you incorrect answers at the outset.

### Return deadlines

You only need to worry about return deadlines if you are posting surveys. We generally suggest one week for staff, two weeks for businesses and three weeks for groups of people. But you should use your best judgment regarding deadlines. For instance, some staff may be away when you pursue your staff surveys, so you will have to set a different deadline with them. The return rates for surveys decrease rapidly over time, so if you don't have many surveys after a three weeks, chances are that you will not receive any more. If this is the case for you, you will need to consider re-posting surveys or pursuing a different approach.

### Incentives

Offering incentives can improve return rates. The welfare benefits take-up projects considered incentives particularly because they could only post surveys, so they wanted to ensure a reasonable return rate. For instance, Newham Council experimented with incentives to increase returns of its surveys. They first offered a free low-energy light bulb to all respondents. This only brought back a few surveys. So then they offered entry into a prize draw for a £25 voucher to a local supermarket. This brought back a good 30 or so surveys. Lancashire, on the other hand, considered offering to donate £1 to a local charity for each survey returned.

You may not find it necessary to offer incentives at all; however, if you find that you are having trouble inducing people to participate in your project, you might consider ways to appeal to their interests.

### Attitude and approach

Your enthusiasm for local money flows may mislead your survey respondents, so make sure you present your work in an objective manner. If you explain your LM3 project as a way to show how much people spend locally and support the town, you may inadvertently intimidate your survey respondents into answering falsely. Most people and businesses want to show how much they support the local economy, but the point of LM3 is not to make them search for ways to fudge their answers but to find out what's truly happening. You should explain your LM3 project as a way to understand a specific aspect (such as cashpoints, social enterprise, etc.) of the local economy and how money is currently flowing.

## Sampling

The first question everyone asks is ‘How many surveys are enough?’ We will outline for you ideal guidelines. However, be sure that the quest for the ideal sample does not prevent you from obtaining one that is good enough. If you cannot meet our guidelines then do be clear that some data gathering is almost certainly better than no data gathering, which was where you were before you opened this book. So here are our guidelines:

### Path A

- 1) **Suppliers:** As a rule, you should survey the top three local suppliers of an organisation. Most local organisations only use a handful of local suppliers anyway. However, if you come across an organisation that uses 10 suppliers in the local area (first off – hoorah!), then you should select the top three of those. When we say ‘top’, this means the suppliers where the organisation spends the most money. If your initial organisation happens to spend lots of money at a diverse set of local businesses, then survey the suppliers that comprise the top 60% of its spending.
- 2) **Staff:** If there are 20 or fewer local staff, you should attempt to survey all of them. We recommend surveying as many staff as possible because it is unlikely that you will manage to get responses back from everyone, so aiming high means you will hit on target. Also, staff are more accessible than suppliers since they work for the initial organisation. If your initial organisation employs more than 20 local staff, you should aim to survey 50% of them. You should also survey a representative sample of those staff, if possible. Say you employ 14 local staff: eight are entry level, four are part-time, and two are managerial. If you are going to survey 50% of them, which is seven, then you should aim to survey four entry-level staff, two part-timers, and one managerial person. In case you didn’t follow the maths:

Staff type	No.	If surveying 50%
Entry-level	8	4
Part-time	4	2
Managerial	2	1
<b>Total</b>	<b>14</b>	<b>7</b>

If you aren't sure how to classify staff, you can use wage level, which actually is a more appropriate measure; however, organisational owners may prefer to tell you the level of the worker rather than their income. When it comes to representative sampling, there may be other factors to consider, such as the gender, age, and ethnicity of your staff. Do your best to take a sample of all groups, but don't lose sight of the overall goal of understanding local money flows.

### Path B

- 3) **Groups of people:** You will have to survey a sample of your initial group of people if you are pursuing Path B because it is simply impossible for everyone to participate. Here is where people most want a guideline, and the best one we can offer is: enough so that you feel confident that you have a representative group. Right, you want more, don't you? The table below outlines our ideal recommendations:

Population size	Target %	# People
100	50%	50
1,000	20%	200
10,000	5%	500
Unknown (< 1000)	–	50-200
Unknown (> 1000)	–	200+

So what do you do with these recommendations? Realise that you are most likely going to miss them, and that's okay. If you hit the target response rate, it means you can call your full analysis LM3. If you miss it, you should state that before discussing your results. It doesn't mean your results are invalid, but it does mean there is more room for error.

You have to use your judgment for interpreting your results, even if you do achieve the target response rate. For instance, Newham achieved only about a 15% response rate, out of a total population of 220 Working Families Tax Credit recipients. However, the surveys returned were relatively consistent in breaking down personal spending habits, so they seemed reasonably representative of WFTC recipient spending. The access to finance projects couldn't be entirely sure how many people used the cashpoint on a weekly basis, but they made estimates based on the number of people in the town.

- 4) **Businesses:** If you are pursuing a Path B LM3 analysis, then your task in Round 3 is to survey businesses frequented by the initial group of people, which could be a lot of businesses. You will probably note that the largest chunks of locally-spent income go towards food, clothing, and housing. Surveying all of the businesses on the high street is impossible. However, you can aim to survey a few representative businesses. Say for instance that our surveys showed that a lot of people spent a good deal of their budgets at grocery stores and takeaways, and the next tier seemed to be late licenses, electronics, and clothing. We might take a sample such as this:

Store type	# Surveyed
Grocery Store	2
Takeaway	2
Late license	1
Electronics	1
Clothing	1
<b>Total</b>	<b>7</b>

The responses to your surveys should indicate the most popular kinds of stores. An alternative, or even a first approach, is to post surveys to stores, chase up with a telephone call, and then come by in person. From our projects' experience, this strategy did not work very well, but it did bring back a few surveys, so it's worth a try if you are short on time. If this LM3 analysis is in a place you know (which is quite possible), you might survey businesses where they know you, such as your regular sandwich shop or café. When business owners know who you are, they are far more receptive to being surveyed.

Finally, you will also be able to use our data on chain stores in Appendix 5, which contains local re-spending rates for over 180 chain stores in the UK. Especially if you pursue a Path A LM3, people will frequently spend a large portion of their income on chain stores on the high street.

Do remember what we mentioned earlier: LM3 is an *indicator*. Even if you only get a few surveys, they will begin to show you how money is flowing for at least those businesses.

### Confidentiality

Last but definitely not least: confidentiality. You should point out to all survey respondents that their answers are completely confidential. What does this mean? *All* personal surveys are confidential to the project leader alone. While you may need to associate a specific staff person with their income received in order to calculate the amount they re-spend locally, once that figure is established, no respondent should be identified to other people or organisations involved in the project or in any published results.

Organisations surveyed should not be identified in any published results. However, you will want to share the results with the other people and organisations involved in the LM3 so that they can adapt their own spending decisions based on that knowledge. So if you find a specific piece of information useful, and you wish to disclose it to others involved or in published results, then consult with that person or organisation beforehand.

# Assessing survey responses

Once you have your surveys, you need to make sure they are as accurate as possible. This requires identifying and correcting mistakes and excluding inaccurate surveys.

## Local versus non-local

If you posted surveys, you will need to rectify errors in how survey respondents classified local versus non-local expenditures. The items you listed on your survey will depend on your LM3 project. The way items are classified as local versus non-local will likewise depend on this. There are a few general guidelines for classifying spending. No matter what type of LM3, the following items are considered non-local:

- taxes and business rates (organisational)
- Employer's National Insurance and pensions (organisational)
- income tax (personal)
- utility bills and home costs (organisational and personal)

If your geographic boundaries are at the neighbourhood level, or if they are based on a radius that encompasses only a part of one politically-defined boundary, then you must also consider council tax as non-local.

Respondents may be inclined to define their home costs (such as electricity, gas and water) as local spending, but in fact this spending on utilities is usually non-local (unless the boundary is a very large regional one). These kinds of errors are quite understandable, and this in part is the purpose of LM3. We often do not think about where our money goes. We use electricity in our house, which is about as local as you can get. However, the electricity bill we pay leaves the area immediately.

The other categories will depend on your project. For instance, we considered loan repayments and savings schemes at local branches of national banks to be non-local for some projects because most of the money does not stay in the area. However, in rural communities, such as Powys in Wales where Graig Farm Organics is located,

access to finance is a major concern. Therefore, the use of the local HSBC branch was considered local spending because the alternative would have been internet or armchair banking.

Don't get too caught up in this because you will lose sight of the general purpose of your LM3 analysis. You should give it your best effort. However, if you are off by a few percentage points on a few surveys, these mistakes will not gravely affect your LM3.

### **Dodgy data: incomplete, inaccurate or suspicious**

When you begin to survey people and organisations, you will encounter some surveys that are incomplete, inaccurate or suspicious. The trick is to spot these, as well as to figure out if they're salvageable. With our projects, we erred conservatively, excluding surveys from our LM3 if we weren't sure what was going on. We recommend you err on the side of caution when you are uncertain.

There are as many ways for a survey to be incomplete or inaccurate as there are boxes on the survey form. Some people may choose to give you written commentary on why they make no profit on their business or why they spend so much at the grocery store rather than actually give you a figure. Take the information for what it's worth, but you can't calculate it. Other people will appear to fill out the survey in a way that indicates they spend 350% of their income locally, and a full 80% of it on food. These are the obvious examples, but there are many shades of grey requiring some judgment on your part. Below we discuss the most common forms of dodgy data. Our website will keep you updated with more such issues as we continue to learn through our application of LM3.

### **Dealing with errors**

Errors on a survey don't mean you can't use it. You just have to figure out which parts you can and can't use. For instance, the Graig Farm Organics project enjoyed success at obtaining surveys from most staff; however, they realised afterwards that the bottom section where respondents fill in whether their landlord is local or not had gone missing due to some technical difficulties. Now, this hardly meant scrapping the surveys. The project leader simply made adjustments and assumed for the purposes of the analysis that all rent was non-local. It is likely that some of the people paying rent paid it to a local landlord, but since we didn't know, we erred conservatively. You may be concerned that such an assumption will lower your LM3, which it will. However, as with correcting local versus non-local spending, changes on a few surveys will not cause your overall LM3 to change too dramatically.

### Surveys that don't quite total 100%

Another instance of data inaccuracy is a survey totalling 105%. Again, you need to use your judgment, but you don't necessarily need to bin the survey. If it's not clear where the extra percentage points are in the survey, then you can adjust ('re-base') the whole survey. This is only likely to come up if the respondent used Survey B and submitted percentage figures only. Say the respondent marked that she spent 30% of her income on local staff, but the survey totals 105%. If you divide 30% by 105% you get 28.6%. This is the new figure for spending on local staff. You would do this with all of the figures on the survey. Your survey will then total 100%, but the figures will remain relative to each other.

### Survey consistency

If you are surveying a group of people and find a wild variation in spending habits, then you may want to look closer. If 20 people indicate spending 30% on food while two indicate spending 70% on food, then those two surveys might be a bit off. If you use sampling and find that most of your surveys are consistent but there are a few that seem incorrect (in the maths world, they're called outliers), then discard those surveys. This cannot be said about businesses, as their spending habits will vary more significantly. You may find significant variation in people's breakdown of local versus non-local spending, but people's basic needs remain the same. As always, though, you need to exercise some judgment.

### Suspicious surveys

Lastly, you may encounter suspicious data. By this we mean surveys that appear too bizarre to be true. For instance, some businesses that fancy themselves local will indicate that they spend 100% of their income locally. This is truly impossible because most business must spend some portion of their turnover on utility bills and business rates, which are non-local. You can often correct for these errors. Sometimes you may need to consult with others or do some research. Our food projects showed that farmers spent a great deal of their income locally, up to 80% in some instances. This seemed implausible to us, but we asked around and found out that most farmers live on family farms so they pay no rent or mortgage, use very little labour other than their own families so most staff costs are local, and they operate under a different tax structure so the farms don't pay the same rates as other organisations.

### Unexpected results

While you are carefully combing for survey aberrations, don't keep your mind closed to unexpected results. You probably have an idea of what you expect from these surveys, but some of our pilot project leaders were surprised by their results. For instance, Knowsley's analysis showed the non-local contractor spent more locally than did the local contractor. We were of course intrigued by this because it was not what we expected (and had we been proven wrong?). This is where the LM3 analysis really unearthed knowledge about local money flows. If Knowsley had measured only the first round they would have ruled that their contract went to a local company and therefore benefited the local economy. By measuring the next round of spending, they learned that a good chunk of this money left Knowsley because the so-called 'local contractor' was in reality the regional headquarters for a national construction company, so they employed non-local subcontractors and national suppliers large enough to meet demand.

Sometimes it's hard to know whether the surveys are incorrect or you are simply expecting something different. If you note consistency in how the surveys differ, then the latter may be the case. In one of our earliest survey versions, the survey items on the personal survey were separated between 'everyday items' like food and 'cyclical items' like council tax. We found that survey respondents filled in the two sections as if they were separate, so we kept getting totals of 200%! You can curse at survey respondents for 'not getting it', but if they don't understand the survey, then it's you who needs to change it.

### Chain store data

You are more likely to need data about supermarkets and other 'multiple retailers' for a Path B LM3 because you would need to survey these businesses in Round 3. If you are pursuing a Path A LM3, then you will need to survey chain stores only if they are one of the major suppliers of your organisation.

Our projects found it very difficult to obtain chain store data, primarily because branches need to get permission from the head office, and this can take a while. We encourage you to approach chain stores that are part of your study because you may find them unexpectedly cooperative. For instance, Asda was happy to participate in the Cusgarne Organics project because it has made great strides recently towards sourcing local goods where possible. Despite this policy, Asda's local multiplier effect was half that of Cusgarne's. This was due to the great deal of supplies that are nevertheless sourced non-locally, as well as the repatriation of profits to national headquarters. Only by demonstrating that it is a priority, both social and financial, for

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chain stores to contribute to the local economy, will chain stores begin to reconsider as well as strengthen their local sourcing policies.

So while we encourage you to approach chain stores, don't spend too long on them if you cannot secure data. We provide two tables in Appendix 5 that give you rough values for various sectors and stores. You just have to plug the figures in as needed.

# Calculating rounds and LM3

So you have your surveys. You've combed through them to figure out what's usable. Now you need to turn those surveys into numbers you can use to calculate LM3. This is where you need to pull out a calculator or use a computer to do some number crunching.

## Converting surveys and setting up tables

If you are only dealing with a couple of surveys, you can do the calculations right on the surveys. Otherwise, you need to set up a table to help you out (unless you are a true maths whiz). If all of your survey respondents completed the surveys using cash figures, then this is a quick and straightforward process. If your survey respondents used percentage figures, you have to do a little work to convert figures. There's a very simple way to do this, and we take you through it step-by-step in Appendix 3. You can download template tables from our website as well.

## LM2 – LM3 lite

LM3 is an adapted and simplified version of the traditional multiplier. We have produced an even easier version called LM2.

LM2 enables you to look at the immediate local economic impact of a specific organisation or initiative. If you are mainly thinking of analysing the impacts of your own organisation, then LM2 shouldn't take much longer than it takes you to figure out your organisation's spending on the computer. As you may have guessed, LM2 means looking at only two rounds of local spending. For Path A, that's the income of the organisation and how it spends its turnover. For Path B, it's the income of the group of people and how they spend their money. That's all.

LM2 is especially useful for organisations that want a quick insight into their employment and sourcing practices. To see if they are in fact employing and sourcing locally, and if not, why. For the social enterprise and food projects, Rounds 1 and 2 were highly informative even before they moved onto Round 3. You may not have the time available for surveying right away but still want to get some analysis going.

So you could perform an LM2 and then complete the rest of the work when you do have time.

LM2 is not nearly as accurate as LM3, but it is a satisfactory option if you want to concentrate on your own spending decisions (whether as an organisation or a person). However, if your objective is to gain a broader understanding of the local economy and how to strengthen it, then you will need to go for LM3 by completing Round 3.

### LM3 scores

Once you've calculated your LM3 score, you'll immediately want to know: is it any good? Before you evaluate your LM3, let's frame your result first. Your LM3 cannot be lower than 1.00 and cannot be higher than 3.00. To understand why, let's think of an organisation with income of £100. If it spends no money locally, then we are left with:

Round 1:	£100
Round 2:	£0
Round 3:	£0
Total:	£100
LM3 =	1.00 ( $£100 \div £100$ )

In reality, everyone spends some money locally, but even if the organisation spends everything locally, and all of its staff, suppliers, etc. spend everything locally, then we are left with:

Round 1:	£100
Round 2:	£100
Round 3:	£100
Total:	£300
LM3 =	3.00 ( $£300 \div £100$ )

So those are your absolute lower and upper limits. If your LM3 involves people or organisations that pay taxes (as it probably will), then your realistic upper limit is about 2.20. That's because, assuming people and organisations pay an average of 30% of their income in taxes, then that leaves us with:

Round 1:	£100
Round 2:	£70
Round 3:	£49
Total:	£219
LM3 =	2.19 ( $£219 \div £100$ )

So your LM3 score could be anywhere within this range, from a withered local economy with a score not much above 1.00 to a thriving local economy with a score of nearly 2.20.

As we discussed earlier in this workbook, we only calculate the first three rounds for LM3. If you were to add additional rounds, your local multiplier effect could be larger.

With all of this now in your mind, let's take a look at one more example.

# Worked Example 3: North Norfolk District Council

The councillors at North Norfolk District Council wanted to start making contracts work harder for North Norfolk's local economy. Due to government procurement legislation, NNDC, like other local governments, doesn't have free reign to award contracts just because they're local. However, by building capacity within the area, they hope to enable North Norfolk businesses to become competitive in the future.

NNDC calculated the LM3s for two similar contracts, a car-park delivered by a non-local contractor and a sea wall delivered by a local contractor. They chose these two contracts because they are roughly similar in their labour and supply demands. NNDC went to the offices of the two contractors to have them complete the surveys. The car-park contract was worth £120,000 and the sea wall contract worth £72,000. Of the total contract value, the local contractor spent 34% on local staff, 42% on local businesses, and 4% on investment purchased locally. Meanwhile, the non-local contractor spent nothing on local staff and 17% on local supplier and subcontractors.

Getting the surveys from the contractors wasn't too hard because they knew this was coming up, but what about their local staff and suppliers? Well, it was easy to survey the local staff of the non-local contractor because there weren't any! The local contractor employed three local staff, so NNDC surveyed all of them.

It turned out that the non-local contractor used two local businesses while the local one only used one, though the amount they spent differed. One business, a concrete supply business, was fortunately shared between the two contractors. So NNDC surveyed the two local businesses. The concrete business spent 24% locally and the other business spent 37% locally.

Since NNDC had carried out the surveying in person, they didn't need to do much assessing, so they skipped straight to calculating the two LM3s. NNDC knew the local re-spending rates for the two suppliers, so they applied this to how much the contractor spent on them. They calculated the re-spending rates for the staff of the local contractor as well.

After using Excel to check their maths, NNDC simply added up the three rounds for the two contracts:

<b>LM3</b>	<b>Local contractor</b>	<b>Non-local contractor</b>
Round 1	£72,000	£120,000
Round 2	£57,600	£20,400
Staff	24,480	–
Businesses	33,120	20,400
Round 3	£24,987	£6,768
Staff	17,038	–
Businesses	7,949	6,768
Total	£154,587	£147,168
<b>LM3</b>	<b>2.15</b>	<b>1.23</b>

Here you can see that the local contract, which was actually 60% of the value of the non-local contract, produced a total cash local economic impact of £7,000 more! So imagine how much more money could have been generated for North Norfolk had the larger contract been awarded to the business with the larger LM3 value.



# Taking Action



# What's the score?

Now that you have your LM3 score, what do you do with it? You have probably been thinking about this in the dark hours of survey processing, but maybe your results are worse than you expected, or possibly the LM3 score is so good that you're left thinking: 'If it's not broke, why fix it?'

So how can you tell where there's room for improvement? The best way is to speak with the people involved in your LM3. Say you find that a local business employs mostly non-local staff. This could be due to a lack of skilled labour in the community. Maybe the owner lives elsewhere and hires members of his/her family from that area. Or maybe s/he has simply never thought about it and doesn't realise what an impact it has. There are many possible reasons why, and a conversation with the manager would clear that up for you.

With suppliers, there are also a number of explanations and solutions. The necessary businesses might not exist in the community. Or maybe they do but don't know about each other. If the latter is the case, you could set about supporting a network of businesses or catalyse the creation or attraction of the missing part to your local business cluster.

Cusgarne Organics of Cornwall is an example of how a business used LM3 to first evaluate its own local economic impact (which turned out to be high), which then motivated the business owners to take personal action as well.

## Worked Example 4: Cusgarne Organics

Cusgarne first looked over its income and expenditures. We've changed the figures for this example, but let's say Cusgarne determined its income was £150,000. They then reviewed their spending and found that they spent £93,000 locally. Of this, £40,500 went to local salaries and £52,500 went to local suppliers. Cusgarne was disappointed with the local supplier spending figure but persevered.

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They then went to their local staff and suppliers and determined that both groups spent 61% of their incomes locally, which comes out to a Round 3 total of £56,730. Cusgarne then calculated their LM3:

Round 1:	£150,000
Round 2:	£93,000
Round 3:	£56,730
Total:	£299,730
LM3:	2.00

Every £10 of income for Cusgarne generates £20 for Cornwall. So Cusgarne basically doubles the money that comes into it. Cusgarne observed what a significant effect their spending had on the local economy, so they looked at where else they were spending non-locally that they could just as easily be spending locally.

The LM3 process impacted the Pascoes, who own Cusgarne Organics, so much that they started to review their personal spending habits. Among other things, they started to buy their organic cheese from a local producer. A small change, but if everyone made such a decision, the addition to the local economy would be tremendous.

Maybe it doesn't seem like much to you right now, but if each business or individual in your community switched 1% of their spending from a non-local to a local supplier, how much extra income would that bring into your community?

### Playing with your LM3

As you bear these options in mind, weigh up the effort needed to change the current situation with the potential change to your re-spend figures and see how that affects the LM3. Play around with those a little and determine how different the real and potential figures are. We won't go so far as to call LM3 a 'fun game for all the family', but you may still find this enjoyable, especially after all that surveying. If you can set up tables on the computer, such as in Excel, it's quick and easy, and you get instant results.

Take the example of LOCAL, discussed earlier. LOCAL has an LM3 score of 1.67. Not bad, but what are they going to do with it? LOCAL thought the process was helpful, but they weren't about to actively consider changing suppliers unless it meant their LM3 would increase significantly. Would it change to 1.69 or 1.80? This is an important question – will changes you make matter?

So we asked a question: what would happen if LOCAL shifted 10% of its turnover to local businesses? Their total turnover is £200,000, so that would mean switching over £20,000 to local businesses. How would this affect their LM3? Since they had an average re-spending rate of 15% for local businesses, that would mean an extra £3,000 for the local economy (£20,000 x 15%). Our original LM3 calculation was:

$$\frac{£200,000 + £108,000 + £25,411}{£200,000} = 1.67$$

If we recalculate our LM3 with the additional £20,000 from LOCAL and the £3,000 consequently spent by the suppliers, we find:

$$\frac{£200,000 + £108,000 + £20,000 + £25,411 + £3,000}{£200,000} = 1.78$$

That sounds quite impressive. This might not be possible for LOCAL, so other options would include:

- favouring suppliers with higher LM3s themselves
- working with groups of suppliers to meet failures in local supply (for example, attracting a local stationery supplier or setting up an electricity co-operative)
- offering modest discounts in cash or kind to suppliers with high LM3s

Any of these options can be modelled by tinkering in Excel or another computer program to see which would bring the biggest increase in LM3 for the lowest cost.

### Show and tell

The main point of performing LM3 is not as some academic exercise but to figure out how it can be improved. Or, if you find that your initial organisation is doing about as much as it can, then you might set about spreading that knowledge so others can improve their local economic impact, too. Often this can best be achieved by comparing results with others.

In Newham's case, their initial focus was on the local economic impact of Working Families Tax Credit recipients. But the project discovered along the way that South Asian businesses in the area had low LM3s because of a lack of local South Asian wholesale provisions. This might offer a significant market opportunity for a wholesaler, as well as the chance to bolster the local economy more generally. Some businesses will inherently have a lower LM3, such as car dealerships.

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Here, most suppliers are non-local and these businesses are not labour intensive. Unless you are in Coventry, it would probably be unrealistic to try to bring car manufacturing to your town to improve its LM3. You need to focus on other realistic opportunities, by looking around for businesses with higher LM3 potential.

One example of the LM3 in action comes from NEF's Inner City 100 competition. Inner City 100 is a competition across the UK for successful businesses based in 'inner cities', or deprived urban areas. This past year we found an overall LM3 of 1.11 among all Inner City 100 businesses. On first glance, this sounds quite low. But the local area was consistently defined as within one mile – appropriate in urban areas because one mile can put you in a very different neighbourhood – but a small radius for an LM3.

Secondly, many inner city neighbourhoods have an LM3 of only just above 1.00 because they are enterprise deserts where almost no money changes hands locally. Consider that 1.00 means no additional money is generated for these inner city areas. Based on the data we have for our Inner City 100 businesses, the LM3 of 1.11 translates into a total of £70 million in additional spending – quite a substantial sum. And some of the businesses have much higher LM3 scores than average. How have they achieved that?

Finally, this is just a start. You cannot turn a community around overnight. In disadvantaged communities in particular, the local labour pool tends to lack high-skilled workers and sufficient local businesses or entrepreneurs to meet local demands. So the LM3 is 1.11 this year; next year we hope it will be a few points higher. There is no reason why these neighbourhoods cannot be as thriving as their wealthy next-door neighbours.

### Food for thought

LM3 tells you how the income of one organisation or group of people affects the local economy. From your LM3 you already know how much money the people and organisations you surveyed spend locally, and on what types of items they spend their money.

But you can also think about how this spending affects other people and organisations, and where the leaks are in your organisation or community. The kinds of questions that arise are:

- Are my results what I expected?
- How are they different?
- In which round did things start going wrong (or right)?
- What did I learn about my initial organisation or group of people?
- What did I learn about businesses in the area?
- What did I learn about personal spending in the area?
- Do people seem to care about the results?

Some of these questions become quite philosophical and can't be answered by tinkering with spreadsheets. LM3 gives you a numerical grasp of local money flows, but you may end up wondering 'Are people doing better because of the way the local economy is working?' These are qualitative questions that require a different approach. We recommend a range of social, economic and environmental indicators to really understand your local community, as well as intense discussion in pubs and supermarket aisles, church halls and market stalls – it's good to get away from the computer once in a while and spend some local money!

And if you are really interested in measuring the quality of life in your area, you can also use NEF's **Prove it!** tool, which you can read more about on our website.

### **RSVP: don't forget to write!**

If your goal is to change policy or actions in your community, then you should plan to publicise your findings so others will know. It's an obvious point but if we could have a blue pound coin for every project that runs out of energy before they tell the outside world – well, we'd have a full bucket.

The easiest way to let people know is to send a press release to your local paper. You can also go to umbrella organisations that focus on your type of work. For instance, we fed the findings from our cashpoint projects back to an organisation called the Campaign for Community Banking Services (CCBS). CCBS's mission is to promote local banking and financial access across the UK, especially in rural and deprived areas. They can use the findings of ICE and Killamarsh to bolster their case for changes to UK banking laws. You can use NEF's website to find appropriate umbrella organisations, or give us a ring.

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Even if your goals are more internally-focused, you will be surprised by the number of people and organisations interested in your findings. When we started off with LM3, we had no idea that our results would show up on Radio 4's *Today* programme or the centre page of the *Guardian's* weekend magazine! At the very least, let us at NEF know how your LM3 went. We may even have contact details for other like-minded people and organisations with whom you can share your results and brainstorm on next steps.

Whether your LM3 considers the impact of a single organisation or a multi-million pound initiative, your results can be powerful and persuasive. Despite being tucked away in Cornwall, which seldom makes the headlines, the Cusgarne Organics project has already inspired people all across the country to measure their own local economic impact: we know because they call us asking about it.

LM3 makes the invisible visible. There are money trails all around us, but we rarely have time to stop and ask the (perhaps seemingly) simple question, 'Where does my money go?' Good luck with your own LM3, and remember to have fun along the way!

# Appendices



# Appendix 1: Checklist and flowchart

On the next four pages we have provided a checklist and blank flowchart for **Path A** and **Path B**. This way you won't have to lug this book with you everywhere! Our pilots all expressed an interest in having a clear and simple overview of the steps and their results. You can also use the flowchart to present your results to others. Feel free to use these or adapt them as you wish. These documents are also available for download from our website.

### LM3 Checklist – Path A

#### Preparation

1. Define your stakeholders
2. Team up with others and get buy-in
3. Define your local area
4. Budget time for your LM3

#### Round 1 - Income of your initial organisation

#### Round 2 - Spending of your initial organisation

1. Make a list of local staff and the amounts they receive
2. Make a list of local businesses and the amounts they receive
3. Have your organisation warn staff about surveying
4. Have your organisation ring businesses before you survey them

#### Round 3 - Spending of local staff and businesses

1. Survey staff and businesses either in person or by post
2. If surveying staff by post, then post survey packets and chase up uncompleted surveys with a phone call or personal visit

#### Reviewing surveys

1. If surveying by post, review surveys for accuracy
2. If you don't have enough surveys, re-think your tactics and survey again
3. Separate out incomplete, inaccurate and suspicious surveys

#### Calculating LM3

1. Work through each business survey to determine total local spending
2. Work through each staff survey to determine total local spending
3. If you have surveyed all businesses or staff, add these figures together
4. If you have surveyed a portion of them, average their spending together and apply it to the remainder
5. Plug these figures into the LM3 formula

#### Taking action

1. Review surveys to find leaks in your local economy
2. Review by round what is happening
3. List ideas for improving your LM3
4. Publicise your results, if appropriate

### LM3 Checklist – Path B

#### Preparation

1. Define your stakeholders
2. Team up with others and get buy-in
3. Define your local area
4. Budget time for your LM3

#### Round 1 - Income of your initial group of people

#### Round 2 - Spending of your initial group of people

1. Determine the best way to survey or sample your group of people
2. Survey people either in person or by post
3. If surveying people by post, chase up uncompleted surveys
4. Make a list of local businesses receiving money from these people

#### Round 3 - Spending of local businesses

1. Survey businesses either in person or by post
2. If surveying staff by post, then post survey packets and chase up uncompleted surveys with a phone call or personal visit

#### Reviewing surveys

1. If surveying by post, review surveys for accuracy
2. If you don't have enough surveys, re-think your tactics and survey again
3. Separate out incomplete, inaccurate and suspicious surveys

#### Calculating LM3

1. Work through each personal survey to determine total local spending
2. Work through each business survey to determine total local spending
3. If you have surveyed all people or businesses, add these figures together
4. If you have surveyed a portion of them, average their spending together and apply it to the remainder
5. Plug these figures into the LM3 formula

#### Taking action

1. Review surveys to find leaks in your local economy
2. Review by round what is happening
3. List ideas for improving your LM3
4. Publicise your results, if appropriate

## Path A

**Money staying in the local area**

**Round 1:**

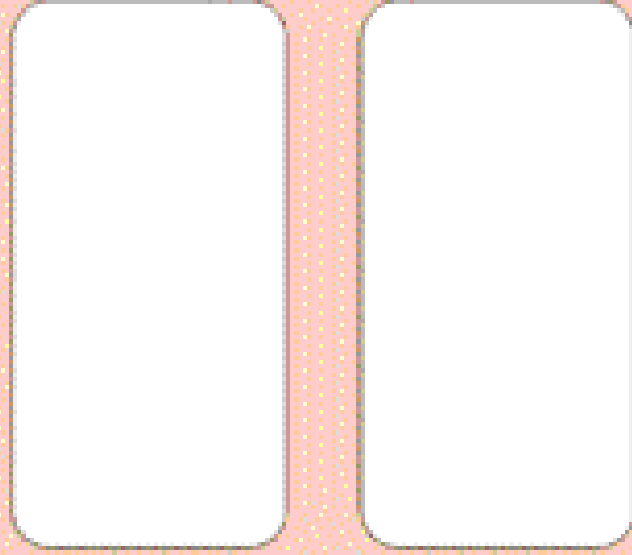
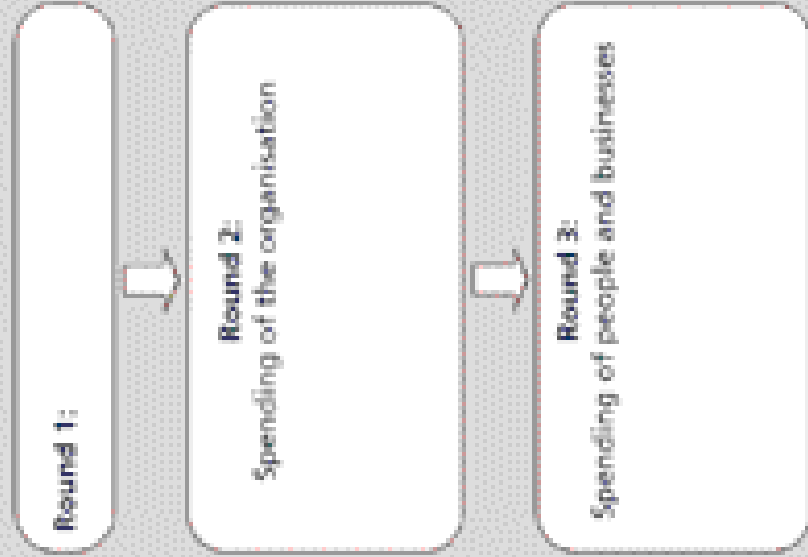
**Round 2:**  
Spending of the organisation

**Round 3:**  
Spending of people and businesses

**Money leaking out of the local area**

**Round 2:**  
Spending of the organisation

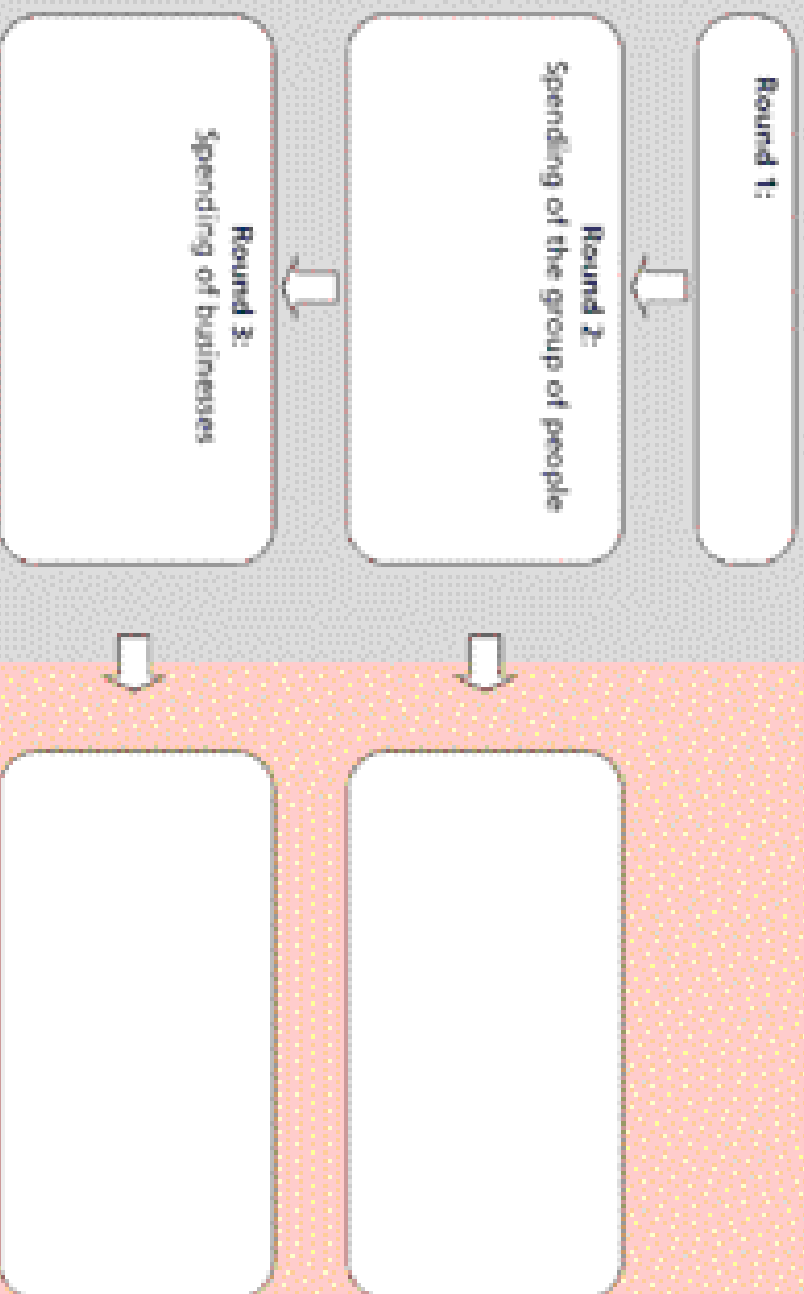
**Round 3:**  
Spending of people and businesses



## Path B

Money staying in the local area

Money leaking out of the local area



# Appendix 2: Surveys

On the next four pages we provide generic versions of **surveys A** and **B** for personal and organisational spending. In the workbook we refer only to surveys using cash figures. However, we are well aware that not all survey correspondents will want to disclose cash figures to you. Based on our pilots' experience, we developed a survey set, A and B. You should come armed with both surveys whenever surveying. And you should enclose both surveys when posting materials to people and businesses. As we discussed in the workbook, if you are posting surveys, you should clearly explain how the survey respondent should complete them. Enclosing a sample completed set is also very helpful. You can download generic surveys from our website.

## Measuring local money flows at \_\_\_\_\_

### Personal Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Employer Company \_\_\_\_\_

Where do you live? \_\_\_\_\_  
(Please circle) Local Non-Local - Please state where \_\_\_\_\_

#### How do you spend your income?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing survey B.  
For each row (e.g., 'Food'), the 'Total £' should be the total of '£ Local' and '£ Non-Local'.

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
<i>Example - using £ figures</i>	<i>£1,100</i>	<i>£500</i>	<i>£600</i>	<i>John's Shoes</i>
Income tax				
Food (incl. restaurants/take away)				
Entertainment (e.g. restaurants, video rental, betting, sport, pub)				
Clothes				
DIY/Garden/Household appliances and items				
Transportation (e.g. train, car tax, bus fares, petrol)				
Services (e.g. babysitting, window cleaners)				
Rent/Mortgage				
Council tax				
Home costs (fuel and water, phone, TV tax, etc.)				
Loan Repayments				
Savings				
Other (please specify)				

Total Spending = £ \_\_\_\_\_

If you rent, please circle one of the following:

Private Landlord (Local)    Private Landlord (Non-local)    Housing Association    Council Tenant

If you have any questions regarding this survey please do not hesitate  
to contact \_\_\_\_\_ at \_\_\_\_\_

## Measuring local money flows at \_\_\_\_\_

### Personal Spending Survey

*Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.*

Employer Company \_\_\_\_\_

Where do you live?

(Please circle)

Local

Non-Local Please state where: \_\_\_\_\_

#### How do you spend your income?

If you wish to submit % figures, we recommend you first use **survey A** to determine how you spend your income. Then divide each item, such as 'Food,' by your 'Total Spending' to determine % spending on each item. For each row (e.g., 'Food'), the 'Total %' should be the total of '% Local' and '% Non-local'.

Item	Total % (Local + Non)	% Local	% Non	Please name the main local business/es you use for each category.
<i>Example line</i>	14.0%	5.0%	8.9%	John's Shoes
Income tax				
Food (excl. restaurants/take-away)				
Entertainment (e.g. restaurants, video rental, betting, sport, pub)				
Clothes				
DIY/Garden/Household appliances and items				
Transportation (e.g. taxis, car tax, bus fares, petrol)				
Services (e.g. hairdressing, window cleaners)				
Rent/Mortgage				
Council Tax				
Home costs (fuel and water, phone, TV lic, etc.)				
Loan Repayments				
Savings				
Other (please specify)				

Your total should = 100%

If you rent, please circle one of the following:

Private Landlord  
(Local)

Private Landlord  
(Non-local)

Housing  
Association

Council  
Tenant

If you have any questions regarding this survey please do not hesitate to contact \_\_\_\_\_ at \_\_\_\_\_

## Measuring local money flows at \_\_\_\_\_

### Business Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Company Name \_\_\_\_\_

Address \_\_\_\_\_

Contact Name and Position \_\_\_\_\_

Where do you live?  Local  Non Local Please state where  
(Please circle) \_\_\_\_\_

#### How is the organisation's turnover spent?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing survey B.  
For each row (e.g., 'Staff costs'), the 'Total £' should be the total of '£ Local' and '£ Non-local'.

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
<i>Example - using £ figures</i>	£1,400	£500	£900	John's Shoes
Staff costs (incl. NI and pension)				
NI, pensions, and training				
Drawings (if sole owner)				
Director's fees and bonuses (if partnership)				
Supplies				
Subcontractors				
Rent/Mortgage				
Fuel & Utilities				
Repairs & Maintenance				
New Investment				
Insurance				
Taxes (VAT, Corporation Tax and business rates)				
Loan repayments				
Other (please specify)				

Total Turnover = £ \_\_\_\_\_

If you rent, please circle one of the following:

Private Landlord (Local)  Private Landlord (Non-local)

If you have any questions regarding this survey please do not hesitate  
to contact \_\_\_\_\_ at \_\_\_\_\_



## Measuring local money flows at \_\_\_\_\_

### Business Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Company Name \_\_\_\_\_

Address \_\_\_\_\_

Contact Name and Position \_\_\_\_\_

Where do you live?  Local  Non-Local - Please state where  
(Please circle)

#### How is the organisation's turnover spent?

If you wish to submit % figures, we recommend you use **survey A** to determine how you spend your turnover. Then divide each item, such as 'Staff costs,' by your 'Total Turnover' to determine % spending on each item. For each row (e.g., 'Staff costs'), the 'Total %' should be the total of '% Local' and '% Non-local'

Item	Total % (Local + Non)	% Local	% Non	Please name the main local business/es you use for each category.
Example	14.0%	5.0%	8.4%	John's Shop
Staff costs (incl. NI and pension) NI, pensions, and training				
Drawings (if sole owner)				
Director's fees and bonuses (if partnership)				
Supplies				
Subcontractors				
Rent/Mortgage				
Fuel & Utilities				
Repairs & Maintenance				
New Investment				
Insurance				
Taxes (VAT, Corporation Tax and business rates)				
Loan repayments				
Other (please specify)				

Your total should = 100%

If you rent, please circle one of the following:

Private Landlord (Local)  Private Landlord (Non-Local)

If you have any questions regarding this survey please do not hesitate to contact \_\_\_\_\_ at \_\_\_\_\_

# Appendix 3: Converting surveys

On the next two pages we give you a sample completed set of organisational surveys. You will have to do a little maths work depending on how the person or organisation completed the survey.

On page 111 we show you how to convert cash figures to percentages if using survey A. In case you're a little rusty on percentages, the formula for calculating each box is:

$$\frac{\text{£ entered in each box}}{\text{(divided by) total £ spent}} \times 100 = \% \text{ spent}$$

If a person or business wishes to submit percentage figures, then this is a two-step process:

- 1) Complete survey A using cash figures as if submitting this survey for your LM3
- 2) Use the answers for survey A to complete survey B. The respondent keeps survey A and submits survey B to you only.

If your survey respondent submits survey B, then you actually have no work to do other than assessing the survey and then adding up the ‘% local’ column.

There is one last scenario: if a respondent combines cash and percentage figures. This is how we originally modelled our surveys. It is quicker for survey respondents but requires more legwork from you. On page 112 we show you how a business might complete the survey this way (the orange marks show our maths to convert the figures to percentages, which we’ll explain next). The combined survey lists how much the company spends on each item but breaks down local spending by each item. So how would we convert the ‘suppliers’ line? From the sample survey you can see that this business spends £92,170 on suppliers, of which 73.2% is local. It just takes one more step beyond survey A for you to determine how much is spent on local suppliers. First, divide the ‘suppliers’ line by the total spending to know how much the organisation spends on suppliers. So, based on the survey, that’s  $£92,170 \div £208,300 = 44.2\%$ . Next, if we know that the organisation spends

## The Money Trail

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73.2% locally, that's 44.2% x 73.2% = 32.4%. So the organisation spends 32.4% of its total budget on local suppliers. The formula you can use for these surveys is:

$$\frac{\text{£ spent per item} \times \text{\% spent locally}}{\text{(divided by) total £ spent}} = \text{\% spent locally per item}$$

You then go down the '£ spent locally' column and add up the percentages. You can see how we've done this on the sample survey on page 112.



## Measuring local money flows at JUSTIN'S JAM SHOP

### Business Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Company Name THE STRAWBERRY STORE  
Address 42 GERRY LANE  
Contact Name and Position R. SMITH, OWNER  
Where do you live?  Local  Non-Local - Please state where  
(Please circle)

How is the organisation's turnover spent?

You may use monthly or annual figures, but please be consistent for all items below.

If you do not wish to disclose £ figures, please use this survey to assist you in completing survey B.  
For each row (e.g., 'Staff costs'), the Total £ should be the total of '£ Local' and '£ Non-local'

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
<i>Example - using £ figures</i>	£1,400	£500	£900	John's Shoes
Staff costs (incl. NI and pension)	24.3 60,000	21.6 79.2	2.7 20.8	
NI, pensions, and training	5.4 12,000	-	1200	
Drawings (if sole trader)	3.0 15,150	3.0 1,000	-	
Director's fees and bonuses (if partnership)	-	-	-	
Supplies	44.1 92,170	32.4 73.2	11.7 24.8	John's Farm Glass Shop
Subcontractors	2.6 5,200	-	1,000	
<input checked="" type="radio"/> Rent/mortgage	0.3 550	-	1,000	
Fuel & Utilities	0.1 150	-	100	
Repairs & Maintenance	0.1 280	0.1 44	26	roof windows
New Investment	0.3 1,600	0.6 45	25	body expansion - 2012 construction
Insurance	0.3 725	-	100	
Taxes (VAT, Corporation Tax and business rates)	6.6 14,000	-	100	
Loan repayments	1.3 2,700	1.3 100	-	Lloyds
Other (please specify)	0.1 100	0.1 100	-	local transport club

Total Turnover = £208,300 66.3%

If you rent, please circle one of the following:

Private Landlord  
(Local)

Public Landlord  
(Non-local)

If you have any questions regarding this survey please do not hesitate  
to contact JUSTIN SAGES at 020 7093 2800



## Measuring local money flows at JUSTIN'S JAM SHOP

### Business Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Company Name THE STRAWBERRY STORE  
Address 42 BERRY LANE  
Contact Name and Position R. SMITH, OWNER  
Where do you live? (Please circle)  
Local Non-Local - Please state where

#### How is the organisation's turnover spent?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing survey B.  
For each row (e.g., 'Staff costs'), the 'Total £' should be the total of '£ Local' and '£ Non-local'

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category
<i>Example - using £ figures</i>	£1,400	£500	£900	John's Shop
Staff costs (incl. NI and pension)	26.8 60,000	24.1 49,500	2.7 12,500	
NI, pensions, and training	6.4 12,000	-	12,000	
Drawings (if sole owner)	9.0 18,750	9.0 18,750	-	
Director's fees and bonuses (if partnership)	-	-	-	
Supplies	41.2 82,170	32.4 67,400	8.8 24,770	John's Farm John's Shop
Subcontractors	2.6 5,200	-	5,200	
<u>Interest</u> mortgage	0.3 650	-	650	
Fuel & utilities	0.1 150	-	150	
Repairs & Maintenance	0.1 270	0.1 200	70	roof wiring
New Investment	0.8 1,600	0.6 1,200	400	hdy. expansion - 10% Construction
Insurance	0.3 725	-	725	
Taxes (VAT, Corporation Tax and business rates)	6.4 14,085	-	14,085	
Loan repayments	1.3 2,700	1.3 2,700	-	Loans
Other (please specify) <u>Donations</u>	0.1 100	0.1 100	-	local football club

Total Turnover = £ 208,300 66.3%

If you rent, please circle one of the following:

Private Landlord  
(Local)

Private Landlord  
(Non-local)

If you have any questions regarding this survey please do not hesitate  
to contact JUSTIN SACKS at 016 3089 3800

# Appendix 4: Averaging surveys together

If you need to average together a few surveys, you will need to set up a table. You can do this however is comfortable for you, but we offer you a sample table format below to give you an idea of how our pilots did it. You can download a blank table from our website as well.

**% spent locally by local staff**

Item	Staff 1	Staff 2	Staff 3	Staff 4	Staff 5	Average
Income tax	–	–	–	–	–	0.0%
Food	16.6	19.9	24.9	14.9	13.3	17.9%
Entertainment	10.4	12.5	15.6	9.4	8.3	11.2%
Clothes	5.0	6.0	7.5	4.5	4.0	5.4%
DIY	2.1	2.5	3.2	1.9	1.7	2.3%
Transportation	0.1	0.1	0.2	0.1	0.1	0.1%
Services	2.5	3.0	3.8	2.3	2.0	2.7%
Rent/Mortgage	0.2	0.2	0.2	0.1	0.1	0.2%
Council tax	1.0	1.2	1.5	0.9	0.8	1.1%
Home costs	–	–	–	–	–	0.0%
Loan repayments	–	–	–	–	–	0.0%
Savings	4.2	5.0	10.4	10.4	10.4	10.4
Other	–	–	–	–	–	0.0%
<b>Total</b>	<b>42.1%</b>	<b>50.5%</b>	<b>63.1%</b>	<b>37.8%</b>	<b>33.6%</b>	<b>45.4%</b>

# Appendix 5: Chain store data

If you need to plug in local re-spending for a chain store, this table offers you a huge shortcut. There are two tables, one by sector and the other by store. If you are pursuing a Path B LM3 and, for example, find that people generally spend a lot of money at supermarkets, but not necessarily all at Tesco or Sainsburys, then you can use **Table 1**, plugging in the average re-spend for 'supermarkets'. Alternatively, if you are pursuing a Path A LM3 and, for example, find that your initial organisation spends a good deal at B&Q, you can use **Table 2** to find out what the local re-spend rate is for B&Q.

How did we get these figures? It's actually based on public information, so you can do this for yourself, too! We took the annual reports for these stores, which state annual turnover and spending by category. Retail stores spend most of their turnover on VAT, supplies, rent, profit and labour. We know that almost all of those first four items leave the local area. That leaves us with labour. For this table, we have assumed that all money spent on labour is local. This is a conservative assumption as even solely-owned stores employ non-local people.

While we have not included parent company information in this table, you may find it interesting to know that the businesses listed in Table 2 are all owned by 45 parent companies. For instance, Dixons Group PLC owns Currys, Dixons, PC World and The Link, which you may very well have thought were competing with each other! And Great Universal Stores PLC caters to all income ranges with stores ranging from Argos to Burberrys.

**Table 1: local spending by sector**

<b>Store type</b>	<b>Average % spent locally</b>
Supermarkets (e.g. Tesco, Iceland)	10.2
Department stores (e.g. Marks & Spencer)	12.1
Clothing (includes footwear and accessories)	12.9
Electronics (e.g. Dixons)	9.6
DIY/Household goods (e.g. B&Q, MFI)	12.7
Convenience stores (e.g. Kwik Save)	10.5
Pubs and restaurants	20.6
Health and beauty (e.g. Boots)	19.3
Fuel/petrol (e.g. BP, Shell)	2.1
Banks	1.0
<b>Overall average (based on all data)</b>	<b>11.0</b>

**Table 2: local spending by store**

<b>Store</b>	<b>% spent locally</b>	<b>Store</b>	<b>% spent locally</b>
Adams Childrenwear	14.3	David Lloyd Leisure	23.1
Alldays	11.4	Debenhams	11.4
Allders, Allders at Home	13.7	DFS	8.9
Anne Brooks	11.4	DH Evans	10.7
Argos	15.6	Dickins & Jones	10.7
Army & Navy	10.7	Dingles	10.7
Arnotts	10.7	Dixons	9.6
Arriva Trains	26.6	Do It All	15.8
B&Q	11.2	Dorothy Perkins	12.2
Bacons	11.5	Eden	24.7
Bakers Oven	34.8	Ember Inns	24.7
Barkets	10.7	Ernest Jones	12.2
Barratt	11.5	Esporta	8.9
Beefeater	23.1	Espree	10.7
Berkertex	12.0	Evans	14.3
BHS	9.2	Food Giant	8.9
Binns	10.7	Frasers	15.6
Boots, Boots Opticians	15.8	Freemans	34.8
BP	3.9	Gateway	8.9
Brewers Fayre	23.1	Great Universal	15.8
Brian Mills	12.0	Greggs	34.8
Burberrys	15.6	H. Samuel	16.3
Burlington	12.0	Halfords	15.8
Burtons	12.2	Hammonds	10.7
Carlson Wagonlit	19.4	Hard Rock Café	21.0
Cavendish House	10.7	Harvester pubs	19.0
Choice	15.6	Harveys Furnishings	11.5
Comet	11.2	Hawkshead	12.2
Co-op (Homeworld, Living)	9.9	Holiday Inns	19.0
Currys	9.6	House of Fraser	10.7
David Evans	10.7	Howells	10.7

**Table 2: local spending by store**

Iceland	13.7	Racing Green	12.2
Index	12.0	Rackhams	10.7
Instep	11.5	Richards	14.3
Janet Fraser	12.0	Robert Wiseman Dairies	10.7
JMC	19.4	Safeway	10.1
Jolly's	10.7	Sainsburys	9.0
Kays	15.6	Saxone	11.5
Kendalls	10.7	Scotch House	15.6
Kingsbury	11.5	Selfridges	14.3
Kwik Save	8.9	Shell	0.2
Lateshop	9.9	Somerfields	8.9
Littlewoods	12.0	Stagecoach (buses, trains)	33.9
Marks & Spencer	12.6	Stylo	11.5
Marriott	23.1	Superdrug	11.2
Marshall Ward	15.6	Tesco	8.3
Matalan	11.0	The Body Shop	22.8
Mecca Bingo	21.0	The Link	9.6
MFI	19.1	Thomas Cook	19.4
Miss Selfridge	14.3	Toby Carvery	19.0
Morrisons	10.4	Top Shop, Top Man	12.2
Mothercare	11.7	Travel Inn	23.1
MVC	11.2	Victoria Wine	9.6
Next stores	15.0	Vintage Inns	19.0
PC World	9.6	Wades	11.5
Pizza Hut	23.1	Wallis	14.3
Presto	10.1	Warehouse	14.3
Principles	12.2	WH Smiths	9.9
Whitbread	23.1	Wickes	8.1
J D Wetherspoon	19.2	Woolworths	11.2
QS stores	15.0		

### References

- <sup>1</sup> *National Strategy for Neighbourhood Renewal: a framework for consultation*, Social Exclusion Unit, April 2000
- <sup>2</sup> Cranbrook, C. *Local Food Webs*, Council for the Preservation of Rural England
- <sup>3</sup> Schofield, S., and Newby, L. (1999) *A sustainable approach to inward investment*, Forum for the Future, London, UK, p 11-12
- <sup>4</sup> Personal interview, Sukhdev Johal, September 2002



**This workbook is for you if you are concerned about your local economy and want to *measure* and *prove* how effectively different parts of your economy are working.**

You need a way of really understanding what is currently happening in your economy: how money enters, the path it then takes in the area, and how it leaves. And you want to be able to share these results with others, too. Whether you are a business leader, community activist or government official, you want a tool with a concise and comprehensible result so that you can understand whether or not a particular part of your economy is working well, and if not, what action you can take.

**The New Economics Foundation (NEF) has developed just the tool to help you do this, and it's called LM3.** LM3 is

a measuring tool that has been tried and tested across the UK from agriculture to social enterprise to government procurement. ***The Money Trail*** is a how-to manual that will show you how to use NEF's LM3 tool to find out what's *really* happening in your local economy – and how you can make it better.

**'This study has raised awareness of how communities can benefit when projects invest their income back into the local economy and how this way of thinking can be used to prepare the ground for small scale community enterprise.'** Sue Bennett, Eden Community Outdoors

**'So whether it is a matter of local organic cheese, or tourists buying real Cornish fudge to take back...or any one of a thousand or more choices we make, the answer is a categorical YES, we can make the difference.'**

Tim Boyde, Cusgarne Organics



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