

Total Place Plus: an economic perspective

Total Place

The Total Place initiative will make waves. By enabling authorities and their partners to add up the totality of public spending in their areas, it will provide for the first time what 'public sector plc' really means to localities. Then, by focusing on particular target services, it will enable local commissioners and providers to re-marshal the offer of 'public sector plc' and to deliver better outcomes, not just in general, but in those areas that really matter to local people.

This will mean that every pound of public spend will be put to best use. But one impact which, to date, has been largely forgotten is that on the economy. Public spend generates economic prosperity in the areas where it takes place; for people through employment and for local firms through procurement spend on goods and services. That prosperity has yet to be measured, but Total Place gives us the opportunity to do just that.

This is important for two reasons. Firstly, because economic prosperity underpins many of the priority outcomes on which authorities are focusing. Secondly, because economic prosperity is itself under potential threat with the worsening state of the public finances, which in turn places pressure on government to cut spending not only next year, but through to 2015/16 and beyond.

Yet without some understanding of the economic impact of 'public sector plc' on localities, authorities and their partners will be hard pushed to link spending patterns to the real drivers of their priority outcomes. Then, when the time comes, they will find it hard to make the case for why local spend should be protected because of the damage cuts will do to their localities' prosperity.

Total Place therefore needs supplementing to give us 'Total Place Plus', a way of linking economic factors to outcomes and linking public spend to those factors.

'Total Place Plus'

'Total Place Plus' is a suite of analytical tools developed by the economics and local government teams at Grant Thornton, that enables us to map out the economic impact of 'public sector plc' on localities and then link that impact to chosen priority outcomes.

This starts by measuring total public spending in an area - the essential building block of the Total Place initiative. This is then converted into a series of direct and indirect impacts by looking at the direct employment this supports, the procurement spend on goods and services which goes to local firms and the knock-on effects of these on local economic prosperity more generally. Finally, it relates these impacts to priority outcome areas by tracking levels of economic prosperity against outcomes achieved, thereby enabling us to measure what improvement to outcomes is likely to be generated by the spend of 'public sector plc' and equally important, what worsening of outcomes may be expected if the scale of 'public sector plc' is reduced.

'Total Place Plus' provides a measure of total public sector impact on localities. With this understanding, authorities and their partners

can start to think about not just what money is spent on across the public sector, but how it is spent and how changing this pattern can alter the impact of 'public sector plc' on their localities and on their priority outcomes. It gives them a powerful additional tool to exert leverage to get 'public sector plc' to do what it really exists to do: match local spending to local needs.

What we know and need to know

Total Place did not appear out of the blue. It has its roots in the Treasury's commitment to link spending to localities and the pioneering work of Counting Cumbria and other local studies. This means that we already know where the benefit of public spending goes regionally and how it aligns with specific service areas locally in a number of places. But this regional analysis is partial, limited and only regional; it does not take account of a large unallocated spend, it measures regional benefit not spend and it does not track down to specific localities. The local analyses are better as they relate to real localities and real spend, however, they focus on service spend and service outcomes, not overall impacts.

This will improve over time. Government departments will grow more sophisticated in allocating spending to places. Measures of real spending will come to replace assumed benefit. Drilling down to locality level will become easier as accounting mechanisms improve. The Total Place pilots will become more robust as partners come together and potential impact on the ground - and resources to secure that impact - are better understood and allocated. Yet these will still leave a gap in knowledge of how 'public sector plc' contributes to local economic prosperity and how that prosperity itself, irrespective of the actions of specific service providers, contributes to the achievement of priority outcomes. 'Total Place Plus' enables us to fill that gap.

Why act now?

The UK economy has now contracted by some 5.5% over the past year, but the pace of the decline has slowed in recent months and the economy is now showing signs of stabilisation. However, significant risks and uncertainties remain. The financial system still shows signs of fragility, bank lending has not returned to normal levels and unemployment is expected to continue to increase to 3 million by mid-2010.

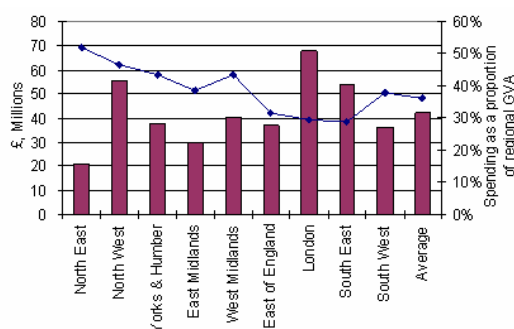
Counter-acting this to avoid an even deeper recession has put pressure on public finances. Borrowing is currently running at 12% of GDP and government debt is expected to hit at least 75% of total GDP by 2013/14 (including the financial sector interventions), significantly higher than the 36% in 2007/08 at the start of the financial crisis.

This has significant ramifications for public spending. The Institute for Fiscal Studies estimates a 16% reduction is required in spending between 2011 and 2016 if the government - whoever wins the next general election - is to restore public spending to long term sustainability, while protecting vital spending in areas such as health. With spending pressures unabated in areas such as children's social

services and adult social care, and income itself down due to the impact of the recession, for many authorities this may turn into a reduction of 22 - 28% in real terms from current levels.

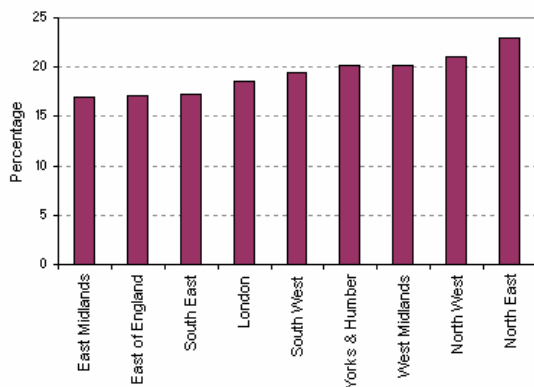
The tightening of public spending will put significant pressure on all public agencies to not only deliver efficient and effective services, but to also use their falling income to deliver greater impact - including the economic impact - by supporting jobs, providing skills and training, and encouraging investment, innovation and entrepreneurship. How they perform will differ, because all have different starting points. Regionally, public spending varies in absolute terms and as a proportion of regional economies, as we can see from the table below.

Spending by region



This spending variation is matched by employment variation, as can be seen from the next table below.

Public sector employment as a percentage of all in employment by region (source: ONS)



It follows from this that economic impact varies now and will continue to do so as overall expenditure falls. The reality is, however, that we do not yet know this impact at locality level, nor what it is likely to be in the future. We therefore have no way of measuring whether particular reductions in public spending have a greater or lesser impact, or how these impacts may drown out the impact of Total Place on priority outcomes.

Is not acting an option?

If all Total Place aims to achieve is the marginal re-adjustment of today's local spending packages to realise marginal improvements in tomorrow's outcomes this would not matter. However, this is not its objective: Total Place fundamentally re-casts 'public sector plc', to achieve a step change in outcomes. This is taking place against a background of generationally-significant reductions in public spending and has the potential to re-write the future of public services. Without a clear measure of economic impact and an understanding of the relationship between this and priority outcomes, the step change cannot be fully understood, limiting its potential. Nor can rational decisions - ones clearly linked to consequences for those priority outcomes - be taken as to which parts of, and in what places, public expenditure should be reduced.

How Grant Thornton can help

The Total Place concept helps us understand funding decisions and their real world impacts. Total Place Plus helps us make the connection to impacts delivered. Improved evidence and analysis of local-level information is key to delivering services that work for communities, that are cost effective and deliver tangible outcomes in response to particular needs.

However, it is also important to understand the impact of changes on the local economy. In particular, by establishing a clear set of impacts, we can also analyse other local data by sector, determine whether economic impact is being delivered and model the effects of future increases or reductions.

We can also assess the extent to which this happens and differs in particular sectors such as health, education, recreation and waste. These propensities are also likely to vary by geography, making local-level understanding integral to the assessment and estimation of multipliers.

Who should I contact for assistance?

The economics and local government practices in Grant Thornton provide a range of economic services for both private and public sector clients. We have extensive experience of assisting many public sector bodies to formulate strategy, evaluate and appraise different policy options and assess and quantify their impacts on the economy.

For more information about how Grant Thornton can help you, please contact:

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