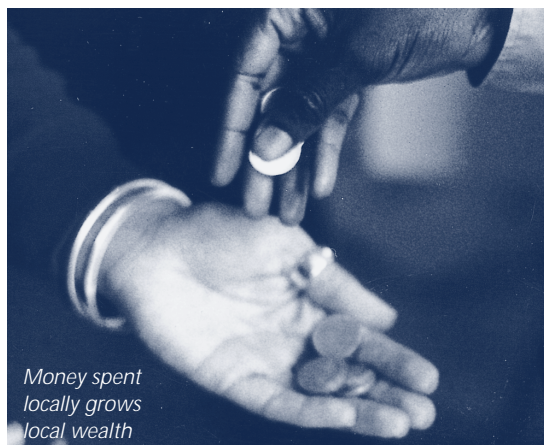


Plugging the Leaks

A briefing from the Centre for Participation

Where DOES all the money GO?

Suppose you paint a pound coin red and watch where it goes. Every time it changes hands within a community, it means income for a local person. Therefore the more times it circulates, the better for that community.



Money stays locally if it is spent on wages for local people and buying locally produced goods. Money leaves the community in energy bills, salaries to non-local people, profit to investors outside the area and so on.

Leaky regeneration buckets

According to Community Links, a social action centre who run community development projects in East London, Canning Town has experienced every state-sponsored regeneration initiative since the 1960s. Yet it is still home to one of the most extensive areas of urban deprivation in Europe. Government schemes such as New Deal for Communities (NDC) will bring £50 million to each recipient area over the next 10 years. This seems like excellent news, until you realise that in some areas of East London this amounts to no more than four per cent of what will be paid into the area in the same time-scale on benefit payments alone.

So why is it that all this public money is not alleviating poverty?

The problem is that money going in flows straight out again because there is nothing to keep it in the area. In Britain today, money flows much too quickly out of local economies, just like a leaky bucket.

'Plugging the Leaks' means finding out how money leaks out and creating ways of keeping the money within the community. The New Economics Foundation (NEF) has set up a programme to help communities become richer by plugging their own leaks.

The benefits of Plugging the Leaks

Plugging the leaks can help to make money work harder in poorer communities. There are also social benefits in the form of community building – for example as more transactions take place face to face, trust is built. Environmentally, the transportation of goods and people reduces as more work and activity takes place locally.

There are benefits for the national economy as well. If economic activity is shifted to 'leaky' communities, where resources are underused (e.g. where there is high unemployment) production in the economy as a whole can rise and inflationary pressure be reduced.

The Rocky Mountain Institute (RMI) is the leading organisation in the USA supporting community economic development. RMI explains that plugging the leaks '...is not a call for isolationism. No community makes all the products it will want. But cost-effective import replacement and a higher degree of self-reliance can enable a town to develop sustainable commerce and improve its comparative advantage... marketing local produce, using water more productively, or using local building materials do not isolate a community from other towns. Instead it enables residents to have enough money to... buy mangoes from Mexico.'



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The multiplier

An economic measurement tool called the 'multiplier' is a useful way to calculate the overall impact of spending money in the local economy. This table illustrates the workings of the multiplier.

80% of money stays locally		20% of money stays locally	
Enters	Remains	Enters	Remains
100	80	100	20
80	64	20	4
64	51	4	1
51	41	1
41	33		
33		
Total: 500		Total: 125	

The starting point in each situation is that £100 enters the local economy. If 80% of each £1 spent stays in the local economy, the total amount of spending that that £100 will generate is about £500 – a multiplier of **5** (500 divided by 100). If only 20% of each £1 spent stays in the local economy, the total spending is only £125. This gives a multiplier of only **1.25** (125 divided by 100).

In a community in which 100% of all the money that enters the economy immediately leaves it again, the multiplier will be only 1. In a community that is entirely shut off from the world and all the money that comes in stays in the economy and is re-spent over and over again, the multiplier is infinite!

It is alarming that many communities have a multiplier effect close to one – any pound that comes into the local economy goes straight out again without circulating. By reducing fuel costs, buying locally produced goods and favouring local shops and service providers a community can significantly increase its multiplier and make money work harder locally.

From tools to action

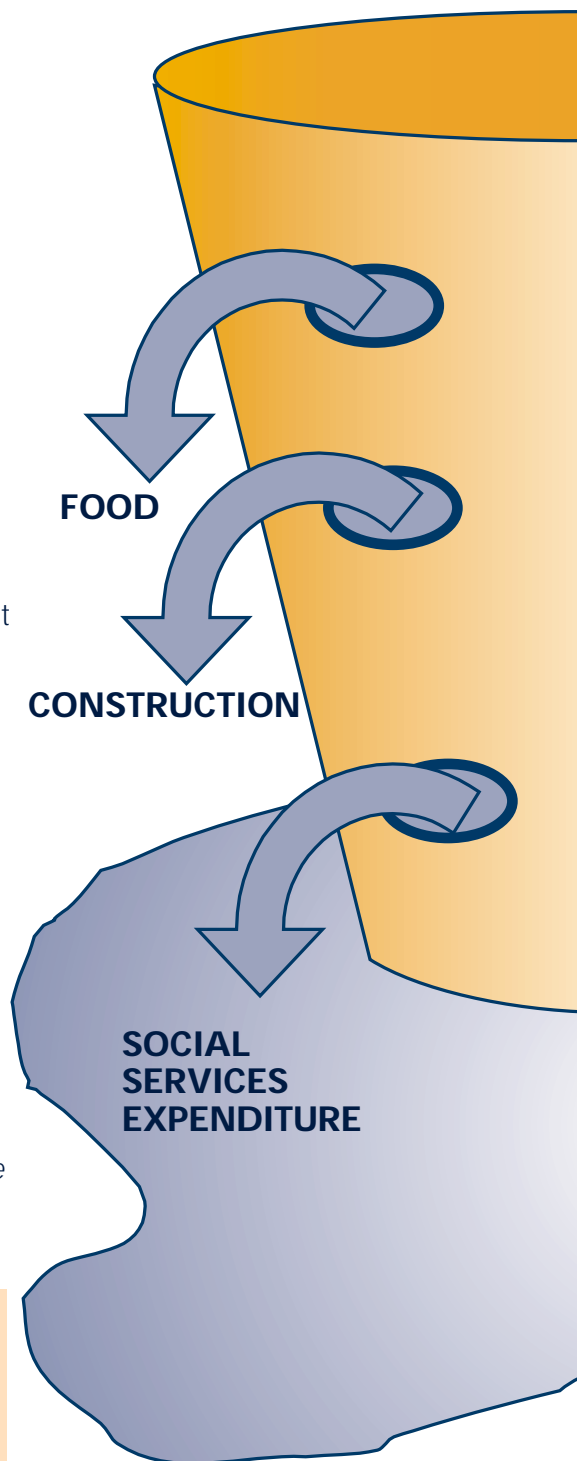
Once people understand what is going on in their economy they are more willing and able to plug some of the holes in their leaky economic bucket. Using the plugging the leaks approach, the community can play an active role in shaping their area's economy. As Jackie Gill, the Marsh Farm community representative in the Luton NDC partnership recently said:

'Other community members have said that we should just do what the local authority says – they are the economic experts. But learning about NEF's leaky economic bucket has given us a language that we can use to better understand what is going on in our estate and to push for what we believe overall will be best for us.'

A study of tourism in Tayside showed that tourists in hotels spent 70% more than those in B&B accommodation. Yet due to the fact that most of the money spent in hotels leaked immediately out of the local economy (non-local staff and owners, legal & financial services provided by London firms, etc) the total income generated locally was calculated to be higher for B&Bs.

The Leak

Money leaks out of the econ



ky Bucket

onomy in many different ways

Finding those leaks – and measuring their size.

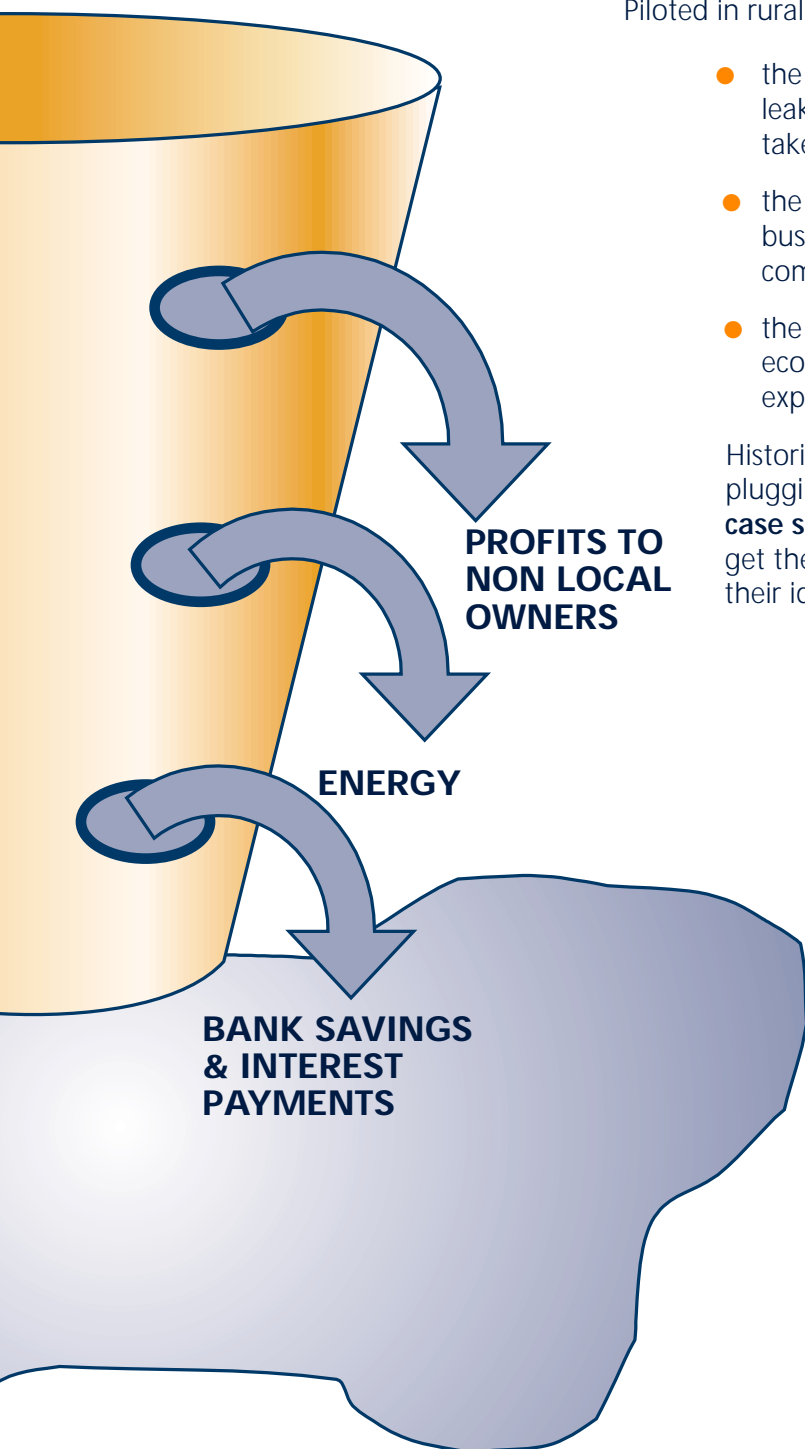
NEF is piloting, with support from the DETR Special Grants programme, a simple **mapping technique** to assist communities in identifying how money is entering and leaving their community. This process involves stakeholders coming together to create a map of the economic leaks from an area. This is followed by surveys of local people, businesses and the public sector to see how their money is leaking out. This analysis equips people to develop ways to actively support existing local business.

With support from the Countryside Agency & the Esmée Fairbairn Charitable Trust, NEF is developing a series of **measuring tools**.

Piloted in rural & urban areas these aim to measure:

- the local multiplier effect of particular types of leakage (such as spending on energy or failure to take up welfare benefits);
- the local multiplier effect of different types of business activity (such as local food initiatives or community enterprise); and
- the local multiplier effect of different types of economic development (such as local government expenditure or regeneration initiatives).

Historically, considerable efforts have been made in plugging leaks and NEF is pulling together a series of **case studies** so that communities will find it easier to get the advice and support they want in implementing their ideas.



The Brecon Beacons Trust

NEF has already completed, in collaboration with Action for Conservation through Tourism, a pilot in the Brecon Beacons to calculate the value of tourism to the area. With support from the National Lottery Charities Board, surveys were undertaken of tourists and tourism businesses in order to estimate how much income they are getting from tourists AND where the tourism businesses then re-spend that money.

The re-spending of tourism money is particularly important since most effort is spent on attracting more tourists to the area or encouraging tourists to spend more. Historically, much less emphasis has been given to increasing the local economic impact of the tourism businesses themselves. In addition to raising awareness this work is changing how people spend their money. For example, a series of local food initiatives have been developed.

Plugging the Leaks and the New Economics Foundation (NEF)

Plugging the Leaks is a programme of the New Economics Foundation. NEF works to construct a new economy centred on people and the environment. Founded in 1986, NEF is an independent think tank that combines research, policy, training and practical action at national and international levels.

NEF's work includes a variety of approaches to promote participation and economic development. For more information on NEF please visit our website at:

www.neweconomics.org

What next?

Through our work we are testing out a range of ideas and tools that can be widely applied, but are particularly useful to:

- Community groups: NEF is working with community groups to undertake pilots and then create a handbook that helps communities to map leaks in their local economies, and select appropriate leak-plugging actions. This handbook will be available in late 2001.
- Community enterprises: a range of community economic development initiatives are calculating their local multiplier effect. Already we have pilots underway exploring local food multipliers, the impact of a new cash machine following bank closure, and the money flows of a childcare co-operative.

- Best Value and local procurement: one pilot is creating a tool to enable local authorities to evaluate the impact on the local economy of different tenders for contracts – for example what is the local multiplier effect of two different tenders to run an elder-care service. This, under Best Value, could enable local government to favour tenders that include leak-plugging elements. We will explore the possibilities in this area and share findings.

- Businesses: are using our tools to evaluate their local economic impact. A series of workbooks will be published from mid-2001 onwards outlining how to undertake the various calculations to estimate the local multiplier effect of a business.

From October 2001 onwards NEF will be able to undertake a wide range of consultancies to help you plug your leaks, map your economies and evaluate the impact of your economic development initiatives. We will also be making workbooks available so that you are able to undertake some of this work directly without the need for external support.

A website will be launched towards the end of 2001 on www.pluggingtheleaks.org to keep people updated on programme developments.

In the meantime, for the most up-to-date information please contact Caroline Price:

email: caroline.price@neweconomics.org or write to her at: NEF, Cinnamon House, 6-8 Cole Street, London SE1 4YH.

Or you can photocopy and return the form below.

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Name:	<input type="text"/>	
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- ☐ I would like to keep updated on Plugging the Leaks as it develops
- ☐ I am interested in setting up a Plugging the Leaks project
- ☐ Please send me a 'tools for participation' folder with details on other participatory methods
- ☐ Please send me details on joining the New Economics Foundation

Please return to **NEF, (PTL) Cinnamon House, 6-8 Cole Street, London SE1 4YH. Or fax 020 7407 6473**