



UK COMMISSION FOR
EMPLOYMENT AND SKILLS

Forecasting the Benefits of the UK Commission's Programme of Investments

Executive Summary
December 2013

Intelligence Investment Impact

Executive Summary

The UK Commission for Employment and Skills (UKCES) is responsible for two innovative, strategic skills investment funds: the Employer Investment Fund (EIF) and Growth and Innovation Fund (GIF). The purpose of the funds is to foster the development of sustainable training infrastructure designed to increase employer investment in skills and address skill needs on a sector basis.

This study was aimed at forecasting the costs and potential benefits of the investments. Overall, the study indicates that the investments have the potential to deliver a significant level of benefits and achieve relatively strong value for money.

Aims and objectives

The primary objective of the study was to conduct an *ex-ante* evaluation to forecast the costs and potential economic and social benefits arising from EIF and GIF investments in alignment with the principles set out in the HM Treasury Green Book (HM Treasury, 2003).

An associated objective was to “operationalise” the appraisal approach used in the study by providing guidance on the type of supporting information that is needed from prospective investees in future in order to provide an optimal basis for future appraisal work.

Finally, the study aims to highlight ways in which the *ex-ante* results can be enhanced through future evaluation work and primary data collection.

A conservative approach has been adopted throughout this study to minimise the risk that overall projected benefits of EIF and GIF are overstated. As a consequence, more conservative assumptions have been adopted than in other comparable studies.

Employer Investment Fund and Growth and Innovation Fund

In 2011 the UK Commission for Employment and Skills launched phase one of EIF, the first of its contestable challenge funds. Open to Sector Skills Councils to develop employer-led projects throughout the UK, EIF phase one marked a transition away from grant-in-aid (strategic) funding to encourage employers to invest more in the skills of their workforce. Two further phases of EIF followed along with a new fund, GIF. GIF opened out co-investment to any legally constituted employer representative body in order to encourage employers to work together collectively and provide leadership in developing innovative, sustainable skills infrastructure solutions in England.

Over the first two rounds 77 investments were funded through EIF and 16 investments funded through GIF. A light touch approach was adopted in the design of monitoring frameworks for the programmes to avoid defining a range of eligible activities and constraining innovation, as well as to minimise barriers to employer participation and leadership.

Analytical framework

The investments funded through the EIF and GIF programmes address a range of market failures that constrain employer investment in training (including loss of trained staff to competitors, lack of incentives to provide public goods, and an inability of employers to internalise the full benefits of developing training infrastructure). The investments funded are diverse in nature, ranging from interventions directly engaging employers and individuals through to those with more indirect effects (such as activities focused on developing new training products or accrediting training provision).

Despite this diversity, the investments funded generally share the common goal of encouraging greater investment in training and supporting individuals into employment. The core assumption within this study's analytical framework is that such investment can be expected to lead to a range of business benefits (such as reduced waste, improved worker efficiency, or reduced labour costs). In aggregate, this will deliver economic returns in the form of productivity growth reflected in enhanced wages for employees, greater profits for employers and spill-over effects for the wider sector in which the firm operates.

The economic impacts of EIF and GIF have been largely treated as an expansion in aggregate supply, with short run displacement and multiplier effects assumed to be offset by adjustments in wages and the prices of goods and services.

Issues relating to how far investments would have gone ahead in the absence of UKCES investment have been considered out of scope to the present study (but will be addressed in subsequent stages of the investment evaluation programme). Instead, assessment of whether employers would have otherwise delivered the relevant training and employment outcomes in the absence of EIF and GIF infrastructure has been made on the basis of past evaluation evidence relating to similar interventions.

Finally, the study focuses on tangible outcomes. Investments may also lead to a wider range of intangible outcomes, but these have not been captured within the *ex-ante* assessment of impacts.

Study scope

The scope of this study is limited to the first two rounds of EIF and GIF. A number of investments have been excluded from the assessment. This includes 10 pure research projects that are not expected to directly lead to the types of tangible employment and training outcomes that form the core focus of the review. Six participation projects targeting women (the Women In Work programme) were funded through EIF1 and it was agreed over the course of the study that these investments would also be excluded (aligning with the approach taken in other parallel work).

Additionally, a further 23 investments have been excluded as insufficient information on their expected outputs and outcomes was available. Overall, this *ex-ante* assessment focuses on 55 investments, accounting for £58m (65 percent) of total funding committed.

Delivery Costs

During the period over which UKCES funding will be provided, total delivery costs associated with these investments are expected to total **£107m**, with **£48m** expected to be provided in the form of in-kind or cash contributions from employers (a leverage ratio of £0.82 per £1 of UKCES spending, broadly in line with comparable initiatives)¹.

EIF and GIF emphasised the sustainable nature of skills infrastructure investment activity and there will be further maintenance costs associated with the delivery of infrastructure projects beyond this initial investment period. On the assumption that investments will prove sustainable for 10 years, the present value of long term delivery costs is estimated at between **£295m and £447m** (in 2011/12 prices). Once future costs are accounted for, leverage ratios may rise to up to £7 per £1 of UKCES spending (substantially outperforming other programmes if delivery can be sustained).

Impacts on training and employment

Volumes of training and employment outcomes expected are significant, with the EIF and GIF investments expected by delivery organisations to potentially support **0.5m training episodes** (including substantial numbers of apprenticeships, mainly at higher levels). If investments are sustained for a period of 10 years and perform as expected, then these volumes could be substantially higher (in the order of **2m to 3m episodes of training**).

¹ This figure refers only to the subset of EIF and GIF projects that were covered by the study and will not be consistent with estimates of leverage that relate to the full range of projects supported.

Applying a range of assumptions around the likely additionality of these training outcomes, it is estimated that this may translate into somewhere between **0.3 and 1.3m training episodes** that would not have happened in the absence of EIF and GIF (with the width of this band reflecting the uncertainty associated with effectiveness of particular types of activity in raising demand for training amongst employers).

Impacts on employer and public investment in training

The delivery of this projected increased demand for training will be accompanied by increased levels of investment in training by employers (and in some cases, the public sector). Over 10 years, it is estimated that EIF and GIF may stimulate an additional **£1.3bn to £4.3bn** in expenditure on training amongst employers (in present value terms), alongside **£0.5bn to £0.7bn** in additional expenditure by the public sector.

The total cost to society of EIF and GIF over 10 years (including increased expenditure on training by employers and the wider public sector) is estimated at between **£2.1bn and £5.6bn** (in present value terms, in 2011/12 prices).

Cost effectiveness

The overall cost to society per additional training outcome is estimated at between **£4,300 and £6,100**. Direct delivery costs per additional training outcome are estimated at between **£340 and £860**, and the cost to UKCES per additional training outcome at between **£40 and £160**. The achievement of these unit costs is in part contingent on the long term sustainability of investments (though both costs and volume of training outcomes delivered will fall in the event that this proves not to be the case).

There are relatively limited cost-effectiveness benchmarks available for comparable skills infrastructure projects. A 2009 National Audit Office review of the Train to Gain skills brokerage programme found a cost per gross learner (i.e. taking no account of additionality) of £970, and concluded that the service did not offer good value for money.

The EIF and GIF programmes may outperform the Train to Gain service, with projected *gross* delivery costs per training episode of less than £150.

Economic benefits

The total present value of net economic productivity gains are estimated at between **£3.0bn and £10.0bn** (with approximately even contributions from wage gains, profitability gains, and spill-over effects). Productivity gains are skewed towards the later years of the 10 year time period under consideration, with around 90 percent of impacts expected to occur within the 2015/16 to 2021/22 period after UKCES funding has come to an end.

The scale of productivity gains is also contingent on the delivery of outcomes outside the funding period (and a number of investments were not planning to launch to market until close to the point at which UKCES funding came to an end). As a result, a substantial share of the expected benefits of EIF and GIF investments are contingent on their sustainability in the longer term and their ability to perform as anticipated.

Value for Money

The table below provides an assessment of the value for money associated with the first two rounds of EIF and GIF². The estimates below rely on the investments being sustained over time.

The analysis provides an assessment of value for money in terms of:

- **Return on public sector investment:** The £s of net economic benefits per £1 of public sector expenditure³. EIF and GIF are expected to deliver between **£2.85 and £6.32 per £1 of public sector expenditure** over the 10 year period under consideration. This compares favourably with returns from other types of skills intervention.
- **Return on UKCES investment:** The £s of social benefits per £1 of UKCES spending⁴, providing a measure of the efficiency of UK Commission funding in delivering the economic benefits involved. EIF and GIF investments are expected to deliver between **£18.41 and £81.95 in net social benefits per £1 invested**. As UK Commission funding is a small component of the overall costs involved, these measures are highly sensitive to differences in the total benefits estimated under the different scenarios.

² The estimates are presented as a range because alternative assumptions are made about the level of training outcomes that may be delivered over the 10 year period and also the proportion of outcomes that are said to be additional. The ranges reflect the degree of uncertainty.

³ Measured as (Total Benefits – Costs to Employers – Leverage) / (Costs to UKCES + Costs to Wider Public Sector)

⁴ Measured as (Total Benefits – Costs to Employer – Costs to the Public Sector – Leverage) / Costs to UKCES

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- **Benefit to cost ratios (BCR):** The overall £s of economic benefits per £1 of resource costs incurred in the delivery of the investments⁵. The overall benefit to cost ratio for EIF and GIF over the 10 year period under consideration is estimated at between **£1.46 and £1.79 per £1 of resource costs**.

Table 1 Value for money measures (£s of benefits per £1 of costs)

| Cost / Benefit / VFM measure | 2011/12 to 2014/15 | Total | EIF | GIF |
|----------------------------------|--------------------|----------------------|----------------------|--------------------|
| Costs | | | | |
| UKCES funding (£m) | 54 | 54 | 43 | 11 |
| Employer contributions | 45 | 45 | 25 | 20 |
| Costs 2014/15 to 2021/22 | 0 - 0 | 196 – 348 | 111 – 217 | 86 - 131 |
| Indirect costs – Employers | 348 - 921 | 1,320 – 4,339 | 985 – 3,107 | 335 – 1,231 |
| Indirect costs - Public Sector | 85 - 137 | 458 - 771 | 152 – 372 | 306 - 399 |
| Total costs | 532 - 1157 | 2,073 – 5,557 | 1,312 – 3,763 | 760 – 1,790 |
| Benefits | | | | |
| Productivity gains | 271 - 705 | 3,022 – 9,958 | 2,366 – 7,702 | 657 – 2,255 |
| Appraisal measures | | | | |
| BCR | 0.51 - 0.61 | 1.46 - 1.79 | 1.80 - 2.05 | 0.86 - 1.26 |
| Return on public sector spending | -0.87 - -1.36 | 2.85 - 6.32 | 6.40 - 10.49 | 0.67 - 2.13 |
| Return to UKCES spending | -3.79 - -7.31 | 18.41 - 81.95 | 25.51 - 92.62 | -8.63 - 43.27 |

Benchmarking

There are some difficulties in translating these estimates into measures that can be straightforwardly compared with other programmes. Other studies measure productivity gains on lifetime basis, rather than over the 10 years under consideration here, and some do not factor in additionality.

When estimated on a comparable basis, the findings would suggest that the EIF and GIF programmes are projected to deliver a rate of return that is potentially in the upper ranges of what might be expected for interventions of this type.

⁵ Measured as Total Benefits / (Delivery Costs + Wider Costs to Employers + Wider Costs to the Public Sector)

While the programmes may not reach the rates of return associated with apprenticeships (as estimated by the 2012 National Audit Office review of apprenticeships), this may represent an upper bound for what might be achievable as they are based on those employers that do not require further encouragement to invest in such training (NAO, 2012).

The EIF and GIF programmes are predicated on the assumption that further public expenditure is required to encourage additional employer investment in skills, and as a consequence, benefit-cost ratios will inevitably be lower than estimated by the NAO.

While the potential rates of return may be relatively high, there are also substantial risks involved. In particular, higher rates of return are contingent on the on-going sustainability of investment activity. This cannot be guaranteed, and if a large number of investments fail to reach a position in which their maintenance can be sustained over a long duration of time, then the return on public spending may fall substantially.

Limitations to this analysis

The following points of scope, and the limitations associated with this, should be borne in mind in the review of this *ex-ante* evaluation assessment:

- **Incomplete coverage of benefits:** The assessment of likely benefits is driven primarily by the volume of training outcomes anticipated by investments. However, many investments may lead to intangible benefits (such as improved confidence in the skills system to deliver the skills needed in certain industries) that have not been captured through this assessment. Additionally, the *ex-ante* evaluation primarily focuses on volume effects though many EIF and GIF investments will enhance the quality of training provided. To the extent this is reflected in an increase in demand for training, these effects are captured. However, there may be additional benefits for those employers moving from lower to higher quality provision: these types of effect are substantially more challenging to quantify and have been excluded from this assessment.

- **Monitoring information:** The results of the *ex-ante* impact assessment are constrained by the scope of the monitoring information available. The results of this analysis are also based primarily on the investment plans agreed with delivery partners following appraisal at the outset of their project and some investment plans have been subject to subsequent contract variations. Additionally, long term projections for future costs and benefits were not routinely available from delivery partners. Planning assumptions have been applied to overcome this gap in the evidence base, but there is substantial uncertainty over these future projections. However, as projected outcomes are self-reported by investees, there is a risk they prove optimistic in the long run.
- **Additionality:** The *ex-ante* assessment of impact integrates an assessment of deadweight (i.e. how far any growth in training and associated economic effects might have occurred in the absence of EIF and GIF investment) on the basis of the available evaluation evidence. In many cases, the evaluation evidence is either based on self-reporting methods or does not have substantial depth, leading to uncertainty over the potential additionality of different types of activity.

Executive Summaries present the key findings of the research produced by the UK Commission for Employment and Skills. More detailed analytical results are presented in Evidence Reports.

All of the outputs of the UK Commission can be accessed on our website at www.ukces.org.uk

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