

The Source Skills Academy: Review of Socio- economic contributions (2003-2013)

May 2013

Methodology Overview

Contents

Slide	Section
3	Introduction
4	Scope of the analysis
6	Overview of our approach
9	Approach and assumptions per programme category
15	Annexes

Introduction

- PwC was commissioned to value the socio-economic impacts of The Source's activities from 2003-2013. A detailed analysis has been provided in a private report to The Source, British Land and Sheffield City Council for their use only. The headline figures from the analysis are presented in The Source's public report "Great Things Can Happen...Our 10 Year Review". This Methodology Overview is a public document that summarises our approach to the analysis.
- The following points are important to note about this study:
 - **Skills and employability outcomes:** While a wide range of changes could have been felt by The Source beneficiaries, this analysis focuses on material outcomes intended by The Source around skills and employability.
 - **Impacts are additional and attributable:** The value of the impacts presented in the report is net of deadweight and displacement effects, and considers what is attributable to The Source versus other sources of support to create the same outputs and outcomes.
 - **The analysis is based on third party data** which included primary research specific to The Source, as well as published government statistics and valuations guidance. Evidence has also been captured from The Source programme managers and some of The Source's partners. No additional primary research has been undertaken as part of this study. In areas with data gaps, we developed informed assumptions which are presented in this document.
 - **Application of ranges:** It is typical to see ranges presented in this type of analysis, to allow for variations in assumptions. We ran a number of scenarios in which we applied ranges to those attribution factors which were based on judgement, and where we felt there could be some variability in those judgements. However, when such ranges were applied the effect on the overall figures was minimal – primarily because the programmes in question were relatively small. We therefore chose not to apply ranges. Our detailed analysis report to The Source *et al* presented all values as single figures, based on the method and assumptions detailed.
- This Methodology Overview explains the scope of the study, provides an overview of our approach to impact measurement and valuation, as well as the detailed assumptions that we used in each category of activity analysed.
- Additional detailed points on our approach are provided in **Annex I** and coefficient sources are presented in **Annex II**.

Scope of the analysis (1)

The Source's key areas of activity include:

1. Providing training (e.g. delivery of training courses/programmes and mentoring support)
2. Supporting businesses (e.g. through direct business support programmes)
3. Supporting others (e.g. sharing expertise, contributing to other organisations)
4. Staff and supply chain (e.g. through its own staff and direct expenditure)

For the purposes of this review we were asked to focus on (1) and (2). The Source provides training and support to a range of beneficiary groups. We have grouped the analysis by these groups, as detailed in Table 1.

Table 1: The Source's Activities - Programme category

Programme Category	Category reference in "Great Things Can Happen..."	Programmes included in this category
School (incl. College students)	Offering opportunities to local school children	Schools VSP Programme; Pre-16 Short Courses; L3 Diploma (Sheffield College).
Adults in work	Delivering work-based learning	Work-based apprenticeships (16-18), Work-based apprenticeships (19+), Workplace Learning (19+), Sheffield Showcase.
Business Support	Growing businesses	Opportunity Sheffield.
NEETs (People not in employment, education or training)	Moving young people onto positive outcomes	Future Proof contact; Learner Responsive YPLA.
Unemployed adults	Supporting local jobseekers	Future Jobs Fund; Work Programme; Miscellaneous employability programmes (A4E, Argos, JCP, Pre-employment training Remploy, Retail Routeways, SSU-DVC, SSU-Barnsley College, SOYOD – JCP, Skills for Jobs – Working Links, Work Academies – Sheffield College).

Scope of the analysis (2)

Programmes and investment in scope

- The total investment in The Source over the period 2003-2013 is **£18.7m** (Figure 1).
- The amount of investment in scope for this analysis is **£14.4m** (Figure 2). £12.2m of this relates to programme delivery, and £2.2m is the start up costs that have been allocated to these activities (see Annex I for further details).
- The investment in scope is equivalent to **96% of the Source's training and support activities** – and represents **77% of overall investment**. This represents the majority of The Source's activities over the ten year period.
- The amount of total investment out of scope is **£4.3m**. This includes training activities out of scope (£0.5m), start-up investment that relates to the post 2013 period (£2.7m), and start up investment that relates to the delivery of other activities that are out of scope e.g. gym, commercial room hire (£1.1m).
- The analysis also excludes the following:
 - Miscellaneous smaller programmes or projects.
 - Income and expenditure related to commercial training and non-educational activities (gym, café, crèche).
 - Pass through salary costs of the Future Jobs Fund.

Figure 1: The Source - Total investment (2003-2013)

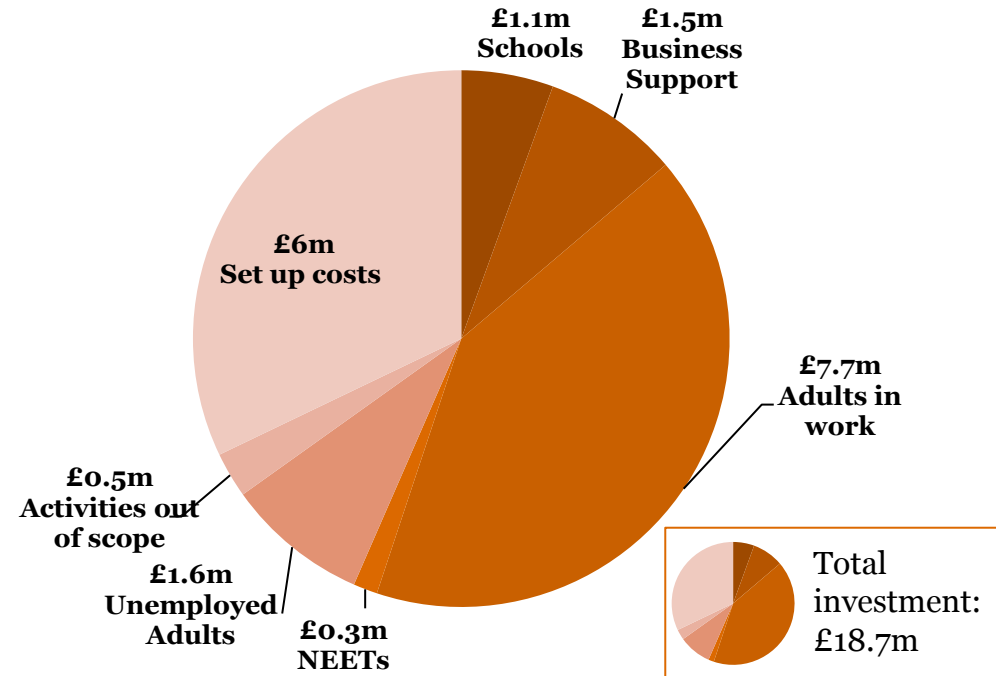
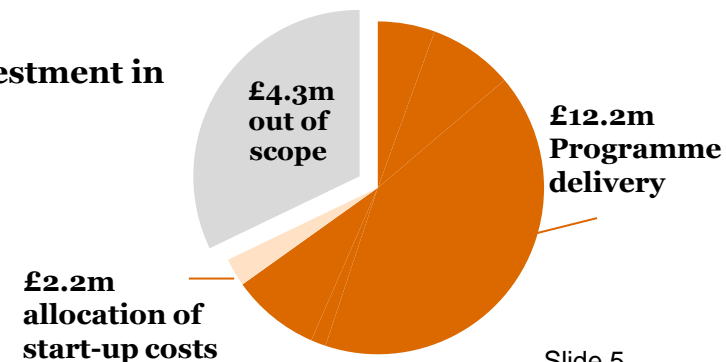


Figure 2: Investment in scope

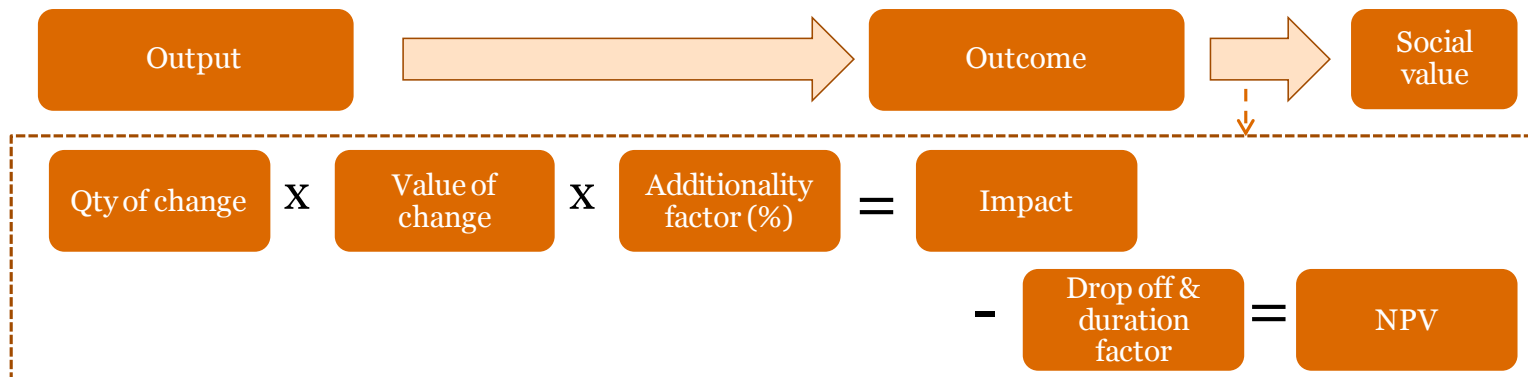


Overview of our approach (1)

Our approach has analysed how inputs and outputs generated by The Source translate into outcomes and impacts (where the impact represents the value of the social change that has been additional and attributable to The Source). We have followed this approach for each of the 5 'categories' identified in Slide 4. Firstly, it involves identifying the 'quantity of change' (i.e. how many beneficiaries experience an outcome) and the value of that change (i.e. a financial proxy to value the outcome). Multiplying these two factors together provides the total 'gross value'*. Once a gross value has been established, we analysed what would have happened in the absence of the activities being valued. This '**additionality factor**' combines:

- **Deadweight** (DW) - What would have happened anyway without the activities provided by The Source?
- **Attribution** (A)- How much of the change is due to the activity provided by The Source, as opposed to other factors?
- **Displacement/substitution** (D) – Has there been a genuine change or has the activity simply been displaced from or to somewhere else?

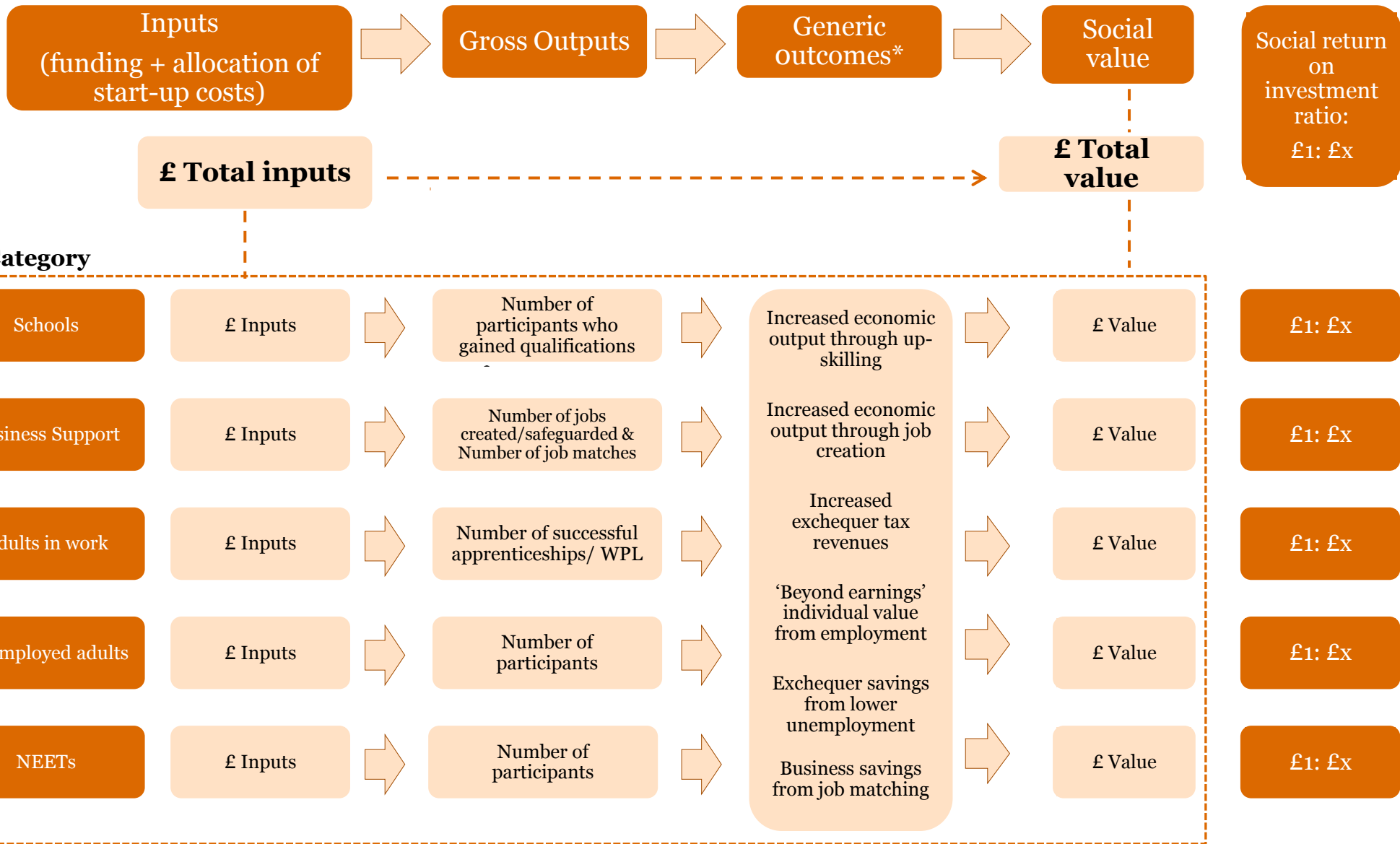
Where available, we have used actual values from evidence or literature to calculate the additionality factor and drop off. Where sources were not available such effects are based on judgement following a scale: 0 = None, 12.5% = Very low, 25% = Low, 50% = Medium and 75% = High.



The result of this calculation is the 'Impact'. We applied a 'drop off' factor acknowledging that some impacts do not remain constant during the duration period and tend to drop off over time. This step in the estimations generate a Net Present Value (NPV) – the value at current prices, taking account of depreciation, inflation and returns. We have also termed NPV as 'social value'.

Slide 7 identifies the output and outcome indicators considered when valuing The Source's impacts. Slide 8 includes the valuation proxies used for each outcome.

Overview of our approach (2): Impact Pathway



* The outcomes listed are taken from across the 5 categories. Some apply only to certain categories, as described in the following section.

Overview of our approach (3): valuing change

Outcomes	Valuation proxies
Increased economic output through up-skilling	The annual increase in productivity per person, associated with the respective qualifications gained from the Schools Programme/having completed an apprenticeship or WPL, excluding individual taxes (income tax VAT and National Insurance).
Increased exchequer tax revenues	The annual increase in revenue that the exchequer receives (Income Tax ¹⁴ , National Insurance, VAT), from the increase in productivity and additional or safeguarded jobs.
Increased economic output through job creation	The average annual Gross Value Added (GVA) of retail (and in some cases wholesale) workers in Yorkshire, that would be associated with each additional job, less the share of this which would be paid in individual taxes (income tax, VAT and National Insurance).
Exchequer savings from lower unemployment	The annual saving to the exchequer of an individual not claiming Job Seekers Allowance.
'Beyond earnings' individual value from employment	The annual well-being impact of unemployment. This is calculated as the cost to the individual of becoming unemployed, over and above the loss of income. DWP suggest that this includes the loss of structured time use and lower levels of activity and social contact.
Business savings from job matching	Based on the market value that businesses would need to pay for job-match services.

Approach and assumptions per programme category

Schools

- Includes the Schools VSP Programme, pre-16 short courses, and L3 Diploma. Typically students are less engaged in mainstream education and do not originate from the highest performing schools. The Source offers a vocational alternative to mainstream provision, and provides a different learning environment (e.g. adult based, connection with retailers).
- **Outcomes** relevant to this category: Increased economic output through up-skilling; increased exchequer tax revenues; increased economic output through job creation; exchequer savings from lower unemployment; and 'beyond earnings' individual value from employment.
- **Quantity of change** calculated as follows:
 - The number of people experiencing an uplift in productivity. This is based on the number completing the Schools VSP Programme, short courses and the L3 Diploma who can be expected to go into employment. This estimate is based on the proportion of the population who are economically active and local employment rates.
 - The number of participants who can be expected to go into employment, over and above what would have happened anyway. This counterfactual is based on the proportion of the population who are economically active and local employment rates.
 - Where we have missing qualifications data (due to date of completion being different to funding year) we have extrapolated based on £/qualification in previous year(s) i.e. assumed unrealised outputs.
- **Additionality** :
 - Deadweight of zero as the 'increase in productivity' factor used for the 'value of change' and the 'employment rate' used in 'quantity of change' have already accounted for what would have happened anyway.
 - A 'low' level of displacement. Displacement in the retail sector is never zero as there is a finite level of consumption. Based on a similar study any displacement effect reduces over time and can be said to be low from 5 years onwards.
 - A 'low' level of attribution to others for short courses, as others (e.g. Schools) would also have an impact on the individuals employability and future earning potential.
 - A 'very low' level of attribution to others for the Schools VSP Programme and L3 Diploma due to the nature of support provided by The Source. In addition, participants are typically less engaged in mainstream education and come from lower performing schools, so The Source can claim a greater share of positive outcomes.
- **Drop off and duration** effect for all outcomes:
 - An expected duration of 5 years as the beneficial effects of the training on employability and productivity could last for at least this duration.
 - 'Low' drop off for short courses as expected to get benefit from the qualification year on year.
 - 'Very low' drop off for the Schools VSP Programme and L3 Diploma due to longer term nature of the respective training courses.

Business support

- Includes ‘Opportunity Sheffield’ – a business support programme which ran from March 2010-March 2012 – and a small job brokerage service. The programme provided impartial help businesses, with the objective of creating new jobs and safeguard existing jobs in the Sheffield area. An independent evaluation of the whole Opportunity Sheffield Programme was completed in 2012.
- **Outcomes** relevant to this category: Increased economic output through job creation; increased exchequer tax revenues; exchequer savings from lower unemployment; ‘beyond earnings’ individual value from employment, and business savings from job matching.
- **Quantity of change** calculated as follows:
 - The reported number of jobs created and safeguarded through Opportunity Sheffield.
 - The reported number of people matched into employment.
- **Additionality** :
 - A ‘zero’ deadweight for jobs created as businesses indicated that the outcome was a result of Opportunity Sheffield.
 - A deadweight of 80% for jobs safeguarded, based on assumption that only 20% of ‘at risk’ jobs would have been lost. This is itself based on the payment difference between jobs created and jobs safeguarded.
 - A ‘low’ level of displacement. Displacement in the retail sector is never zero as there is a finite level of consumption. Based on a similar study any displacement effect reduces over time and can be said to be low from 5 years onwards.
 - A ‘medium’ level of attribution, as other service providers will have had an impact on outcomes. This is consistent with an independent evaluation that placed attribution to others at 30-50%.
 - A ‘medium’ deadweight as businesses would have needed to fill positions through other means had this service not been available.
 - A ‘medium’ level of displacement as likely to displace services from other provider (e.g. recruitment agencies).
 - A ‘zero’ attribution to others, as The Source provided the job matching.
- **Drop off and duration** effect for all outcomes:
 - An expected duration of 5 years as the jobs which were created and safeguarded could potentially last for at least this duration.
 - An expected drop-off of 48% for jobs created and safeguarded, based on DWP estimate of percentage of people moving off JSA that are still in their jobs in a year.

Adults in work

- Includes work-based apprenticeships (16-18), work-based apprenticeships (19+), workplace Learning (19+), and Sheffield Showcase. 'Sheffield Showcase' has been included in this category, as it is a programme offered to apprentices. It provides training and work experience on visual merchandising, using empty shop windows in the city. The value to retailers has not been captured. Commercial training has not been included because it is a paid initiative, and there is limited information on outputs and outcomes.
- **Outcomes** relevant to this category: Increased economic output through up-skilling; increased economic output through job creation; increased exchequer tax revenues; exchequer savings from lower unemployment; and 'beyond earnings' individual value from employment.
- **Quantity of change** calculated as follows:
 - The number of people completing apprenticeships or Workplace learning who are reported to go into full time employment.
 - The number of apprentices who are reported to be in employment and who were previously not in employment, education or training (NEET).
 - Where apprenticeships and workplace learning are not yet complete, we have applied The Source's a current achievement rates to estimate qualifications to the end of March 2013.
 - Assumes that all 16-18 year olds were previously NEET, and some age 18+ apprentices were already in employment. Apprentices who were previously unemployed are classed as a job created.
- **Additionality** :
 - Deadweight of 39% based on national evaluation of apprenticeships and workplace learning.
 - 'A low' level of displacement. Displacement in the retail sector is never zero as there is a finite level of consumption. Based on a similar study any displacement effect reduces over time and can be said to be low from 5 years onwards.
 - 58% attribution to businesses based on proportion of financial input. The financial cost to businesses of training an apprentice, or providing workplace learning, is based on a national evaluation.
- **Drop off and duration** effect for all outcomes:
 - An expected duration of 5 years across all outcomes, as the beneficial effects of the training, and the jobs created, could persist for at least this duration.
 - 'Very low' drop off for the productivity increase due to long term nature of the training.
 - An expected drop-off of 48% for all other outcomes, based on DWP estimate of percentage of people moving off Job Seekers Allowance that are still in their jobs in a year.

NEETs

- Includes Future Proof (100 Apps Programme, 'Get Into Retail' and Summer Transition Programme) and Learner Responsive YPLA. These are training programmes aimed at 16-18 year olds who are not in employment, education or training (NEET). Participants achieve an accredited qualification and progress either into further learning or into employment.
- Data on the destination of participants i.e. whether they went into employment was not available for all individual programmes. Data from 'Get Into Retail' has therefore been extrapolated across this category. Get Into Retail represents approximately 1/3 of the budget for the whole category and is considered to be representative.
- **Outcomes** relevant to this category: Increased economic output through job creation; increased exchequer tax revenues; exchequer savings from lower unemployment; and 'beyond earnings' individual value from employment.
- **Quantity of change** calculated as follows:
 - The number of participants who were reported to have moved into employment as a result of the employability programmes.
- **Additionality** :
 - A deadweight of 11.8% based on the average share of individuals that typically enter employment in a 1.5 month period, the approximate time between the start of the programme and the outcome data.
 - A displacement of 80%, based on DWP evaluations. This states that the net additionality (the net change in total employment) will be 20% of the number of unemployed individuals moved into work, once displacement and substitution effects are accounted for.
 - A 'low' level of attribution to others, as other institutions (e.g. Schools and Jobcentre Plus) would also have an impact on the individuals employability, although this impact would be limited in comparison to The Source.
- **Drop off and duration** effect for all outcomes:
 - An expected duration of 5 years as the jobs created could persist for at least this duration.
 - A drop off of 47.5% based on DWP estimations that 50-55% of individuals who move into employment from JSA will still be in employment in one year.

Unemployed adults

- Includes the Future Jobs Fund, Work Programme, and a grouping of miscellaneous activities (A4E, Argos, JCP, Pre-employment training Remploy, Retail Routeways, SSU-DVC, SSU-Barnsley College, SOYOD – JCP, Skills for Jobs – Working Links, Work Academies – Sheffield College). The pass through costs of salaries for the Future Jobs Fund have not been included in the inputs – only the costs associated with training and management.
- National evaluations have been completed on the Future Jobs Fund and Work Programme. Figures from these evaluations have been used as appropriate.
- **Outcomes** relevant to this category: Increased economic output through job creation; increased exchequer tax revenues; exchequer savings from lower unemployment; and 'beyond earnings' individual value from employment.
- **Quantity of change** calculated as follows:
 - The number of participants who were reported to have moved into employment at end of the miscellaneous employability programmes or as a result of the Work Programme, plus the number of people expected to go into employment following the Future Jobs Fund (assumed to be in line with national average detailed in the national evaluation).
 - Qualifications were not awarded pre 2009, but job outcomes have been assumed to be the same.
- **Additionality :**
 - 11.8% deadweight for the miscellaneous employability programmes based on the share of individuals that typically enter employment in a 1.5 month period (the estimated average programme length).
 - Zero deadweight for the economic benefits of the Future Jobs Fund and 67% for the wellbeing benefits, based on national evaluation figures.
 - A 'low' deadweight for the Work Programme as the participants had been unemployed for a long period and were thus unlikely to otherwise enter employment.
 - 80% displacement based on DWP evaluations. This states that net additionality – the change in total employment – will be 20% of the number of unemployed individuals moved into work, once accounting for displacement effects.
 - A displacement of zero for the Future Jobs Fund as the programme required the jobs to be additional.
 - A 'low' level of attribution to others for the Work Programme and miscellaneous employability programmes as other institutions (e.g. other providers) can be said to have had only a limited impact on the individuals' employment.
 - A 'medium' level of attribution to others for the Future Jobs Fund, as the government funding assisted The Source in moving individuals into employment, and the business experience assisted the training in making these positions permanent.
- **Drop off and duration** effect for all outcomes:
 - An expected duration of 5 years.
 - A drop off of 47.5% for all programmes based on DWP estimations that 50-55% of individuals who move into employment from JSA will still be in employment in one year.

Annexes

Annex I. Additional detailed points on our approach

- **Annual overheads:** We have assumed that all annual overheads (utilities, staff etc) are included in individual programme budgets.
- **Depreciation of fixed assets:** We have used the depreciation rates provided by The Source to allocate expenditure on fixed assets to the 10 years under review. A share of this input has then been allocated to the categories in scope, according to their share of The Source's total funding. The depreciation rates provided are 20 years (land & buildings, marketing & management, lighting) and 3 years for IT equipment.
- **Discount rate:** For the purpose of this analysis we have used a discount rate of 3.5%. This is the standard rate applied to capital investments in the UK (as per the HM Treasury 'Green Book') and is the rate usually applied in SROI analyses (as confirmed by the SROI Network). This is used to calculate the Net Present Value (NPV) of future benefits.
- **Double counting:** As unique client records are not available to track client journeys, there is a small risk that some outcomes may have been counted more than once where individuals have participated in more than one programme. For example, someone from the Schools Programme going on to be an apprentice, or participate in a programme for NEETs/unemployed. This is also the case for jobs created through business support, if those jobs are filled by an apprentice from the Source or participant in a NEET/unemployed adults programme. We have tried to account for such issues in the additionality factor.
- **Duration:** For each of the categories we have used a duration of 5 years. This is a typical timeframe for training activities, and recognises that the impact will be experienced within the first 5 years of completing the activity. Beyond this point outcomes are influenced to a greater extent by other factors. The only exception to this is for the business support category, where we have applied a 1 year duration to the job matching service, as the benefit is realised immediately and then fully drops off.
- **Multiplier effect:** We have not applied a multiplier to the values calculated, as per the guidance from the SROI network.
- **Start up investment:** £6m was invested as start-up overheads (e.g. land, building and fit out, IT, marketing and management). Half of the building and land costs and all the IT overheads have been attributed to the 10 year period under review (based on the above depreciation approach). This amount (£3.3m) has then been allocated to the activities that it has helped to deliver, according to each activity's share of total income. This resulted in an amount (£2.2m) of the start-up costs that could be attributed to the activities in scope.
- **Uniqueness of The Source:** Throughout this review we have heard about the uniqueness of the training and support delivered by The Source. This contributes to the success of the programmes, thereby increasing the number of jobs created and safeguarded, and raising productivity through successfully delivering a more skilled workforce. This uniqueness also raises the share of these changes which can be attributed to The Source. This context has been taken into account in the judgements we have made around additionality.

Annex II. Coefficient sources (1)

<i>Description</i>	<i>Source</i>
Labour Market Data	
Average gross wage in Yorkshire & Humber	Nomis (2012)
GVA/ worker in wholesale and retail trade in Yorkshire	ONS/ PwC analysis (2011)
Wellbeing cost of unemployment	Fujiwara (2013)
Economic Activity Rate (18-64) Sheffield	ONS (2011)
Unemployment rate (18-64) Sheffield	ONS (2011)
Sales & Customer Service Occupations in Yorkshire (Full time) - Mean wage	ONS (2011)
Average proportion of individuals unemployed for up to 6 months who will find work within the following 6 months	Nomis (Claimant count) (2011)
Estimate proportion of unemployed individuals moving into work every 6 weeks, from previous data	Nomis (Claimant count) (2011)
'Additional' effect on total employment when moving an individual into work	DWP (2010)
Impact on the Exchequer	
Annual exchequer benefit to moving an individual into work off Job Seekers Allowance (JSA).	DWP (2011)
Average proportion of individuals who will be claiming JSA, one year after being moved into employment	DWP (2011)
Average marginal VAT rate	BIS (2011)
Marginal propensity to consume additional income	BIS (2011)
Average income tax rate	BIS (2011)
Marginal National Insurance rate	HMRC (2012)
Level of displacement in retail productivity and employment growth	Glasgow City Council (2011)

Annex II. Coefficient sources (2)

<i>Description</i>	<i>Source</i>
Schools Programme	
Impact of Level 1 qualification on employment rate	BIS (2011)
Impact of Level 1 qualification on future earnings	BIS (2011)
Impact of Level 2 qualification on future employment rate	BIS (2011)
Impact of Level 2 qualification on future earnings	BIS (2011)
Impact of Level 3 qualification on future employment rate	BIS (2011)
Impact of Level 3 qualification on future earnings	BIS (2011)
Business Support	
Recruitment costs per employee (services - customer, personal, protective and sales)	CIPD (2007)
Attribution of benefits from Opportunity Sheffield to the programme	MTL Consultants (2012)
Future Jobs Fund	
Impact of additional year of positive benefit of individuals being matched into employment	DWP (2012)
Apprenticeships	
Deadweight	BIS (2012)
Average wage of full-time worker in Retail for apprenticeships	BIS (2012)
Average wage of full-time worker in Business, Administration and Law for apprenticeships	BIS (2012)
Average wage of full-time worker in Retail for WPL	BIS (2012)
Average wage of full-time worker in Business, Administration and Law for WPL	BIS (2012)
Estimate rate of increased productivity from level 3 qualification, relative to level 2	BIS (2012)

Annex II. Coefficient sources (3)

<i>Description</i>	<i>Source</i>
Apprenticeships	
Net cost of training for businesses in retail for Apprenticeships	BIS (2012)
Net cost of training for businesses in Business, Administration and Law for Apprenticeships	BIS (2012)
Net cost of training for businesses in retail for WPL	BIS (2012)
Net cost of training for businesses in Business, Administration and Law for WPL	BIS (2012)
Productivity gain for employers from level 2 retail apprenticeship/ WPL (relative to no qualifications)	Hasluck et al. (2008)
Productivity gain for employers from level 2 business, admin & law apprenticeship/ WPL (relative to no qualifications)	Hasluck et al. (2008)
Productivity gain for employers from level 3 retail apprenticeship/ WPL (relative to no qualifications)	Hasluck et al. (2008)
Productivity gain for employers from level 3 business, admin & law apprenticeship/ WPL (relative to no qualifications)	Hasluck et al. (2008)
Level 2 apprenticeship average length of time	Skills for the Third Sector (2013)
Level 3 apprenticeship average length of time	Skills for the Third Sector (2013)
Increase in cost for business of providing level 3 training, relative to level 2	Skills for the Third Sector (2013)
Net cost of level 3 training for businesses in retail for Apprenticeships	Adapted from BIS(2012)
Net cost of level 3 training for businesses in Business, Administration and Law for Apprenticeships	Adapted from BIS(2012)
Net cost of level 3 training for businesses in retail for WPL	Adapted from BIS(2012)
Net cost of level 3 training for businesses in Business, Administration and Law for WPL	Adapted from BIS(2012)
Share of total productivity gain produced by apprentices that is felt by employers	Dearden, Reed & Van Reenen (2000, 2005)
Discounting	
Recommended Green Book discount rate	HM Treasury (2003, updated 2011)

This report has been prepared by PwC for and only for The British Land Company plc, Meadowhall Education Centre (Trading as The Source Skills Academy) and Sheffield City Council in accordance with the terms of PwC's engagement letter dated 28 January 2013 and for no other purpose. PwC does not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by PwC's prior consent in writing.

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