Emsi

Demonstrating your institution's

Economic Impact

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About Emsi

Emsi aims to connect the education, economic development and employment sectors together through the common language of labour market data. Through our granular market intelligence, we are partnering with over 100 organisations and institutions in these sectors, helping them better understand the needs of the labour market in which they operate.

Why do an Economic Impact Study?

Education is the main artery connecting people to the world of work. One of the many things this means is that education providers are bound to have a huge impact on the communities and the stakeholders they serve. Yet it is often the case that this impact either goes unnoticed or unappreciated. Education institutions are seen as places of learning, but few appreciate that they are also key economic drivers in their own right.

Yet imagine if a region's education providers all announced that they were to close. What effect would this have on the community? What effect would this have on the regional economy? How much would local businesses be affected? What about the effect on young people? How about society as a whole?

When you stop to think about what education providers are and what they do, the fact that they have a significant effect on their regional economy is obvious. For one, they are often among the biggest employers in their town or city, sometimes employing hundreds or even thousands of members of staff. Second, they are often one of the biggest hubs within their town or city, attracting hundreds if not thousands of learners. And thirdly, because their business is to train people in skills that will help them gain useful and sustainable employment, their impact is bound to be far-reaching, affecting the lives of learners, employers and society long into the future.

Education providers are increasingly being asked to demonstrate the role they play in their community, and also the return that stakeholders receive for their investments. Yet whilst anecdotal evidence is fine, up to a point, when it comes to proving its economic impact, there is no substitute for robust, data-driven evidence.

Emsi have been conducting Economic Impact Studies (EIS) for almost 15 years, with over 100 in the UK alone, and our research has consistently shown that education providers add huge value to their immediate business community, to the lives of learners, and to society as a whole. Learners benefit from higher lifetime earnings; society benefits from avoided social costs; taxpayers benefit from an expanded tax base; local businesses benefit from increased consumer spending; local employers benefit from a more productive local workforce.

The value of having this evidence is probably not difficult to see, yet in addition to this an EIS can also serve an internal function, acting as a benchmark with which to measure current and future performance. These two things – evidence to external stakeholders and an internal benchmark – means that for many providers, an EIS has now become an integral part in the life of the institution, and the results are refreshed every few years.

This report answers some of the questions that we regularly get asked about our studies. The next two sections are somewhat technical in nature, looking at what the EIS measures; the following section looks at some recently added features; and the final section looks at some of the ways education providers are using their EIS. We hope you find this useful.

How much economic impact does your institution have?

Education providers are generators of economic prosperity. The very existence of an institution in an area means learners coming into the area, the employment of staff, and the spending by the institution itself on goods and services produced by local businesses. All of these things generate wealth, and we measure this by means of an Impact Analysis.

IMPACT OF STAFF & INSTITUTION EXPENDITURE

All education institutions spend money on wages, goods and supplies, and this is money that will, for the most part, enter the local economy. By "for the most part", we mean that of course not all spending will end up in the local economy. For instance, staff might spend some or even all of their wages further afield, and some suppliers will be located outside the area. We take these factors into account when calculating the impact of providers on their local economy.

The money that does enter the local economy then flows through that economy. In order to calculate what effect this will have, we apply "multipliers" across all sectors of the local economy. It is important to note that since local economies are often very different to one another, the money flow through those economies will be very different too. Therefore, we do not just "multiply" it through the economy on a crude "catch all" basis; rather, we calculate and use different "multipliers" based on the nuances of the particular area we are looking at.

This gives us a gross impact figure, but we then take into account "alternative uses of funds" – how would the money be spent if the institution didn't exist – and subtract it from the gross figure to leave us with a net impact which can in effect be treated as the annual impact.

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IMPACT OF LEARNER EXPENDITURE

The spending of the provider itself, however, is not the only expenditure that will impact the local economy. There is also the effect of learner spending; that is, spending by learners which wouldn't exist if the institution didn't exist. In calculating this, we only include those students who come to study from outside the normal travel area. The reason for this is that the money they spend, unlike the money spent by those living within the area, is money that wouldn't necessarily enter the local economy if the education provider didn't exist. Local learners, on the other hand, would be spending their money locally anyway and so we exclude them from our impact calculation. As with the impact of the spending of the institution, we then apply our multipliers to end up with a figure that shows the net annual impact on economic growth.

ADDED WORKFORCE SKILLS

There is one other major aspect of the impact analysis that needs mentioning, that of Added Workforce Skills. This is a calculation of the economic contribution made by the provider's students who find employment in the area after leaving. This figure is usually the biggest number in our studies and also the part which is unique to Emsi's work.

Our economists look at each year of historic training at the institution – typically going back 15 years – and then use this data in conjunction with wage differential data to determine the total amount of higher earnings associated with the educational achievements of past and present learners. In other words, since there is a direct correlation between higher levels of education and higher levels of earnings, by using the provider's training data, we can establish the effect of the education in terms of the higher earnings this leads to within the local economy.

Of course not all ex-students will still be working locally – some will have moved away and some will be unemployed – and not all students will be working in the curriculum area in which they studied. So when making our calculations, we take these factors into consideration, using local employment and earnings patterns to discern which industries learners are potentially working in and how much they are likely to be earning in those industries.

Once we arrive at our figure, again we apply "multipliers" to calculate the effect that these higher earnings will have on the local economy. Stating the case in simple terms, the more people earn the more they will spend and this will have a positive effect throughout the local economy.

The figure we end up with – the aggregate higher earnings as a result of the provider's training, and the impact this has on the local economy – represents the increased economic growth that the past (and present) learning at the institution is producing each year. This figure is not static, but represents the ongoing contribution to economic growth. In other words, if the institution were to close tomorrow, the economic growth stemming from the education it had provided would still be produced for years to come because of the historic training.

This figure is the really unique element of an Emsi Economic Impact Study. In theory the other measures used in the study could be carried out for most other "businesses." This one, however, is unique and really gets to the heart of what the education sector is about – increasing employability, boosting earnings potential and raising productivity, especially in the local and regional economy.

What return on investment does your institution bring?

Conducting an investment analysis for an education provider is a complex process, yet the basic concept is something that we are all pretty familiar with throughout our lives. If I put my money and time into something, am I going to get more back in return? If the answer is yes, then it's worth doing; if no, we should think carefully about that investment! Our EIS involves an investment analysis – or return on investment – for learners, society and taxpayers.

BENEFITS TO LEARNERS

Everyone who attends an education institution incurs direct costs, such as tuition fees, as well as equipment and books etc. In addition to these direct costs, each learner also incurs indirect costs or "opportunity costs" – that is money they could be receiving if they had entered the workforce instead of continuing in education or training. We calculate all of this – both the direct costs and the opportunity costs – but in doing so we ensure that we don't just apply uniform values to each student. The opportunity costs for a 16-year-old with no work experience are obviously vastly different than those for an adult student with lots of experience, and our analysis takes this type of variable into account.

So much for the costs, but what about the benefits? The economic benefits for learners are basically the increased earnings potential that they have as a result of the training they undertake. However, when conducting an investment analysis for learners, we recognise that earnings power is not uniform across the board for all students, but also depends on age, programme of study and achievement. Therefore, far from applying a blanket value to each learner, we first establish all the different variables that will affect future earnings, and then apply this to the student data provided by the institution we are conducting the study for.

At the end of this process, we end up with two figures: On the one hand, there are the learner costs – that is the costs to the total student body in the single academic year that we analyse. On the other hand, there are the benefits that we identify as the increased earnings of this one group of students, discounted back to today's value (for example, a salary of £30k in 10 years' time will be "worth less" than it is today, so we discount everything to today's value to give a true measure).

These figures are then used to find the benefit/cost ratio – a figure that tells us how much students will, on average, receive back for each pound they invest in going to college or university. So for example, a benefit/cost ratio of 6.3 means that for every £1 a student invests in their education, they will get £6.30 in higher earnings over the course of their working life. This figure is also expressed as an annual percentage, therefore making it even clearer just how much return on investment learners get for attending the institution.

BENEFITS TO SOCIETY

The benefits of education are not just confined to the individuals who graduate from the institutions, however; there are also knock-on effects on the rest of society. As with the calculations for learners, there are both costs and benefits to society which must both be established before they can be offset against one another.

The costs are basically money that society invests in the provider, and the loss of money/output that could be being generated if each of the students were actually working instead of attending the institution.

As for the benefits, these are the added income produced by a more skilled local population/workforce (i.e. higher wages, higher local spending, more spending on local housing, increased prices, increased business profits etc), and social savings, such as lower levels of ill health, lower levels of crime, lower requirement of state benefits, which are all corollaries of higher levels of education.

As with the investment analysis of learners, we do not just come up with catch-all figures, but rather we take into account the differences within the student body (i.e. age of students, level of course, achievement etc).

BENEFITS TO TAXPAYERS

In addition to calculating these benefits to society, we also look more specifically at the benefits to taxpayers. This involves firstly looking at the amount of UK government funding that the institution receives in the year of our analysis, in order to find out the cost to the taxpayer. We then separate out those benefits to society that go specifically towards taxpayers, which are an increased tax base from more highly skilled workers (as they earn more, they pay more tax), and avoided social costs directly attributable to the taxpayer (i.e. those that the taxpayer would otherwise have to pay for such as for police, unemployment programmes etc).

Again, just as we did with learners and society, we look at this as a benefit cost ratio (£1 investment gives a return of £X amount) and also as an annual percentage rate of return. What this does is to give clear and strong evidence that taxpayer investment in the education gives a strong rate of return.

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New features

In addition to the Impact Analysis and Investment Analysis, we have recently added some new features which bring even more benefit for institutions.

APPRENTICESHIPS

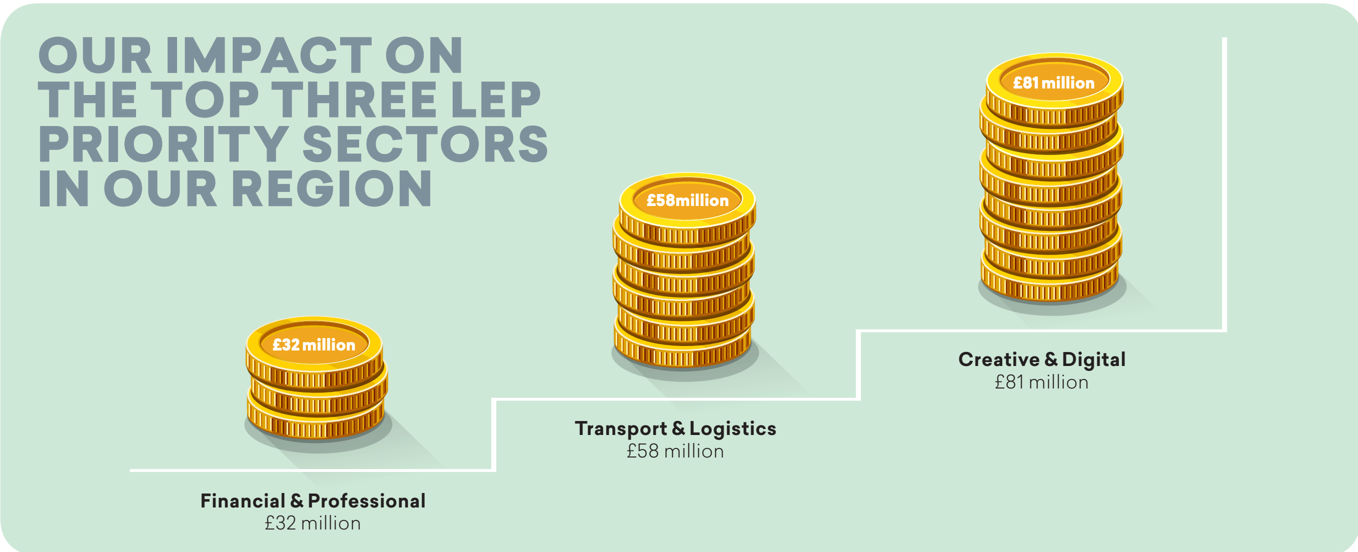
In addition to the stakeholders mentioned in the previous section on Return on Investment, apprenticeships bring in two more: the businesses that offer them and the students that do them. We are able to feed into our EIS model a combination of data from external sources and data found in the institution's Individualised Learner Record (ILR), to produce a return on investment figure for both businesses and students.

What this means is that our EIS now provides a specific answer as to how both these stakeholders benefit from apprenticeship programmes. Businesses can know what type of return to expect from bringing on an apprentice, whilst prospective apprentices will be able to see the return they can expect from doing an apprenticeship. This gives some great opportunities for institutions to market their apprenticeships to both stakeholders.

IMPACTS BY INDUSTRY

We are now including a new figure in our studies measuring "impacts by industry". This essentially takes each of the institution's impacts, then shows which industries the impacts flow to and calculates what these impacts are. For example, a university or college must spend money on electricity to operate, which means that there will be an impact on the electricity, gas, steam and air conditioning supply industry. Another example would be that of former learners who take their new skills into local/regional industries, leading to increased output in the sectors they work in.

There are a number of possible uses for these figures that a provider might consider. For instance, the figure for a particular industry could be used to show leaders in that particular industry the impact the institution has on their sector. Another example would be a provider making use of the figure for a particular industry when applying for a grant in that sector.



BENCHMARKING

Having conducted nearly 100 studies in the UK, we now have a bank of results that can be used to create a benchmark figure for each individual provider against the collective results. This allows us to rank the institution's return on investment for learners, taxpayer, and society, in terms of whether it falls within the 20th, 50th or 90th percentile. All of our new studies now include a two-page document containing these details.

Although this information is clearly useful, it comes with the caveat that the return on investment results do not take into account factors outside of institutional control, such as regional differences in job and industry composition and employment rates. For example, providers in affluent areas can tend to have a better return on investment for learners than providers in more economically deprived areas, but a direct comparison would not necessarily be a good barometer of how effective both institutions are. However, as a figure for internal use, helping institutions to see which areas they can concentrate on improving operationally to generate greater returns for stakeholders, the new benchmark figure is highly valuable.

How can you use your Economic Impact Study?

An Economic Impact Study is not just a way of quantifying a provider's economic impact; it is also meant to serve as a means of opening up a variety of opportunities for the institution to engage with the community and with stakeholders. Think of it like this: if you have a set of figures in front of you which plainly show the economic value of your institution, why wouldn't you want to showcase that value to as many stakeholders as possible?

Below are just a few ideas that should help you think through some of the ways your organisation might want to use an EIS.

FUNDING

In the current policy environment, one of the most important uses of the EIS is in the realm of funding. If an institution can show itself to be economically vital to the local and regional economy, this can then be used to make a compelling case for receiving increased funding.

One of the best examples of a study being used in this way is at East Durham College. Shortly after the Government announced it would be allocating £6 billion for local projects as part of its Growth Deals, the senior management team at the College received the good news that its bid for £10,000,000 in funds from The North East Local Enterprise Partnership (LEP) to redevelop their Houghall Campus, had been successful.

One of the ways in which the College had supported their funding bid was by using the results of their EIS. With the great results documented by our research, the senior management team realised they had solid evidence of the amazing contribution the College makes to the local and regional economy, and by implication, a compelling argument for future investment.

This concrete and credible evidence was, according to the College's Principal, Suzanne Duncan, a powerful part of the successful bid:

> *"The fact that we were able to quantify our value meant that we could show both the County Council and the LEP just how valuable the College is to the community. And of course this then allowed us to present the case of how much more value we could bring to the local economy with a redeveloped campus."*
>
> **Suzanne Duncan, Principal of East Durham College**

STAKEHOLDER ENGAGEMENT

Another potential use of the EIS is as a starting point for discussions with local stakeholders. A good example of this was the discussions which were organised by Sheffield City Regional College Group after our collective impact study found that the ten colleges in the Sheffield City Region collectively contribute £1.8 billion to the region. Over two events, the group invited a number of key stakeholders to discuss the findings, including local employers, funding bodies, a representative from the LEP, and many more.

However, the engagement was not limited to one-off events. Since this proactive use of the EIS to engage with their wider economic community, Sheffield's colleges have continued to build a really productive and fruitful relationship with the LEP.

MARKETING & PROMOTION

One other extremely valuable use of the EIS results is in marketing and promotion. As we have shown throughout this report, our EIS calculates the impact an institution has on a variety of stakeholders, including employers, learners and the local community. Armed with these results, the institution therefore has a lot of credible evidence of the great benefits it brings to the lives of a number of people – evidence which can be used in a number of marketing initiatives.

One way that the EIS can be used in this way is through producing infographics (such as the one below). These are a particularly effective way of telling the story of the value the institution is having, and a number of providers have promoted themselves to their local community in this way.

To find out more about how our Economic Impact Studies can help your institution articulate its value, contact:

Email: info@economicmodelling.co.uk
Phone: 07720 641651
Web: www.economicmodelling.co.uk
Blog: www.economicmodelling.co.uk/blog
Twitter: @Emsi_UK