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Measuring the social impact of the Tomorrow's People HSBC funded youth programmes

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April 2017

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Forward by Ben Tidswell, Chairman of Ashurst LLP

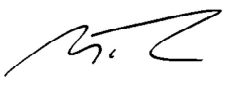
I am pleased to present this report measuring the socio-economic benefits of a number of charitable programmes undertaken by Tomorrow's People. In 2013, Tomorrow's People was one of four charities to receive funding from HSBC, with the aim of helping socially disadvantaged young people across the country into employment, education or training.

Tomorrow's People is a specialist charity which targets some of the hardest to reach members of society in order to equip them with the skills needed to gain employment and realise their potential. These programmes help empower people to build the skills and confidence they need to move into and succeed in work, and benefit society by reducing the negative effects associated with long term unemployment.

This report, by the economics team at Ashurst, builds on the methodology developed in previous evaluations by FTI and the Bank of England. While the results of this type of work are inevitably subject to a degree of uncertainty, it seems clear that the programmes subject to this evaluation delivered significant benefits to the UK. Overall, for the three HSBC-funded programmes undertaken by Tomorrow's People, each £1 invested is estimated to generate benefits to British society of approximately £4.20.

I am delighted that the economists at Ashurst have dedicated their time to be involved in such a worthwhile project. Ashurst is committed to being a sustainable global law firm which delivers positive impacts for its employees, clients, profession, environment and the communities in which it is based. We operate pro bono as a stand-alone legal practice, where our pro bono clients experience the same levels of service as our commercial clients, and we are committed to creating a world leading pro bono practice. Our global corporate responsibility programme is separate from the global pro bono practice, but the two areas are closely aligned. Corporate responsibility is a core component of our firm's culture and is a reflection of our values in action.

Finally, I would like to thank Pro Bono Economics for putting our economics team in contact with Tomorrow's People, and for arranging for this evaluation to take place. Pro Bono Economics plays a vital role in bringing professional economists and charities together for such worthwhile causes. I look forward to the Ashurst team being involved in future collaborations.



Ben Tidswell

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1. EXECUTIVE SUMMARY

Background

1.1 Tomorrow's People ("**TP**") is a specialist charitable trust that helps disadvantaged adults and young people out of long-term unemployment, welfare dependence or homelessness, into jobs and self-sufficiency. They support some of the most vulnerable demographics in society such as young people, ex-offenders, people with disabilities, lone parents, the homeless, those on incapacity benefit and others who have been out of work for an extended period of time. The TP mission is to empower people to build the skills and confidence they need to move into and succeed in work.

1.2 In 2013, TP was one of four charities awarded £30 million of funding (in total) over three years by HSBC's Opportunity Partnership ("**the HSBC funding**"). The funding offers financial support to help 25,000 people into employment, education or training (targeted at people aged 16 to 25 years old). The partnership began in April 2013 and finished in April 2016.

1.3 The HSBC funding was primarily used for TP's three core youth programmes:

(a) Work It Out ("**WIO**") – started in 2004 - is a programme for unemployed 16-24 year olds, providing them with greater confidence and motivation to improve the likelihood of getting into work or training;

(b) In-2-Work ("**I2W**") – started in 2010 - is a project helping unemployed young people living in Lambeth, Southwark and Wandsworth to get into work or training. Developed in partnership with the Metropolitan Police Service, this scheme supports young people, many of whom are involved in gangs, to disengage from criminal activity and build positive lives through employment or training; and

(c) The Works! – started in 2011 - is a ten-week programme that helps unemployed young people in isolated rural areas get into training, further education or employment in their local areas.

1.4 Under the auspices of Pro Bono Economics, TP requested Ashurst to conduct a social impact analysis of the HSBC funding ("**the Ashurst study**"), namely, to estimate the social return on investment ("**SROI**") of TP's three core youth programmes.[1] The study addresses the question, for every £1 invested in TP's employment programmes, what is the value generated for British society.

1.5 In addition to assessing the SROI of the HSBC-funded TP programmes, the Ashurst study has also examined a range of other benefits of successfully moving young people into employment, education or training. In particular, improved personal, social,

[1] SROI is a measure that captures the value of economic and social benefits of the HSBC-funded TP programmes by turning its social objectives into financial measures. SROI is also known as a benefit-cost ratio.

organisational and analytical skills that are difficult to define in economic terms, but which are referred to as "soft outcomes". Whilst we have been unable to quantify the additional benefits in respect of these soft outcomes within the SROI framework, we have reported the improvements in the soft skills of participants of the TP programmes.

Methodology

1.6 In 2011, FTI conducted a SROI analysis of TP ("**the FTI study**") covering WIO (which, at the time, represented 13 per cent of the Trust's expenditure) and Welfare to Work (a programme aimed at motivating, upskilling and building confidence for some of the hardest to reach unemployed people, representing two-thirds of the Trust's expenditure).[2] FTI's analysis found that, for every £1 invested by TP over the period 2006/7 to 2010/11, the value to British society was approximately £2.40. The Welfare to Work programme generated benefits of £2.30 for each £1 of expenditure, whilst each £1 of expenditure on WIO generated benefits of £2.90.

1.7 In addition, the Bank of England has undertaken an evaluation of WIO which updated FTI's analysis to 2013/14 ("**the BoE update**"), and made a number of methodological refinements. This study finds that each £1 invested in the WIO programme between 2007 and 2014 has, on average, delivered economic benefits worth £3.80.

1.8 For consistency, in particular to ensure the SROI estimates for the HSBC-funded programmes are comparable with the FTI study and the BoE update, the Ashurst study has followed the same broad analytical framework as that adopted by FTI and the BoE. In addition, certain methodological adjustments have been made in order to deliver more robust results (e.g. where it is clear that an assumption can be replaced with hard data), some of which increase and some of which decrease the SROI. A detailed discussion of the methodology used to calculate the SROI is set out in Section 3 below.

Key findings

1.9 This report evaluates the socio-economic benefits of the three HSBC-funded TP programmes, which covered the 3-year period from April 2013 to April 2016.

1.10 Over this 3-year period, just over 2,500 socially disadvantaged young people have completed one of the HSBC-funded TP programmes. On average, 33 percent of people that completed one of the programmes during this period gained paid employment on completion of the course, and a further 48 per cent of participants returned to full-time education or training.

1.11 Our analysis finds that in relation to the HSBC-funded TP programmes that were run between April 2013 and April 2016, for each £1 invested the value to British society is approximately £4.20. In relation to the specific projects, for each £1 invested:

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[2] Welfare to Work is not within the scope of this evaluation.

(a) the WIO programme delivered economic benefits of £4.18;[3]

(b) the In-2-Work programme delivered economic benefits of £7.04; and

(c) The Works! programme delivered economic benefits of £3.15.

1.12 We estimate that the net additional value to the British economy of these HSBC-funded programmes is £60 million. This is comprised of:

(a) £24.6 million in additional tax revenues and National Insurance Contributions ("**NICs**") as a result of course participants having a better chance of obtaining paid employment, and at higher wages;

(b) £18.4 million in benefits savings for the Exchequer, particularly in relation to a reduction in Job Seeker's Allowance ("**JSA**") and housing benefit;

(c) £1.6 million of reduced public health expenditure, which is linked to the vulnerable demographics being targeted by the TP programmes; and

(d) £15.4 million of reduced police, legal and prison costs.

1.13 In addition to assessing the hard economic benefits of the HSBC-funded programmes, we have been provided with survey evidence indicating a range of other benefits of the TP programmes (i.e. so called "soft outcomes"). In this regard, the following table summarises the significant improvements recorded across a range of different soft skills outcomes in relation to the WIO and The Works! programmes.

Table 1.1: Improvements in soft skills outcomes

Soft skills	WIO (% reporting improvement)	The Works! (% reporting improvement)
Confidence	89%	94%
Self-worth	89%	94%
Commitment	82%	85%
Problem solving	85%	87%
Talking skills	85%	93%
Listening skills	84%	91%
Competence	87%	92%

Source: Tomorrow's People.

1.14 Of note, over 80 per cent of respondents on the WIO and The Works! programmes indicated that they had seen an improvement across each of the different categories of soft skills identified. This data suggests that the HSBC-funded TP programmes have

[3] This is consistent with the assessments undertaken by FTI and the BoE which also identify positive net social benefits attributable to the WIO programme (albeit over different timescales).

generated additional soft skills benefits which are beneficial and valued highly by course participants.

1.15 In this regard, it is widely recognised that soft skills outcomes are relevant to the evaluation because they often represent intermediate stages on the way to achieving hard outcomes. For example, a programme that improves personal and interpersonal skills is likely to improve the likelihood of employment, even if employment has not been obtained in the near term. An improvement in softer skills may also lead to a range of other "spillover" benefits, such as an improvement in financial literacy, or the participant being a more active and informed consumer, which are also relevant factors to consider.

1.16 However, given the extensive assumptions that would be required in order to build the improvement in soft skills into the SROI calculations, we have not sought to attempt to quantify the economic effects of soft skills in this evaluation. This provides a further reason why the SROI assessment should be regarded as a conservative estimate, and the quantification of the benefits of soft skills is a point we would recommend considering further in any future evaluations.

1.17 As in the case of the FTI study and BoE update, the methodology for assessing socio-economic benefits adopts certain simplifying assumptions and the absolute level of the benefit/cost ratio is sensitive to certain aspects of the methodology. However, we have presented what we believe to be the central scenario, and note the consistency in the findings of a strong positive societal contribution with the various different evaluations carried out. This is despite certain methodological changes, and changes in underlying economic conditions and Government policies which are reflected in the data.

Acknowledgements

1.18 We would like to thank the following people for helping us produce this report:

(a) Brian Gibson, Shaun Gloc and Abi Levitt at TP for providing the relevant data as well as helpful background and insights into the operation of TP and the HSBC-funded programmes;

(b) the team at the BoE for sharing their knowledge and updated calculations with us; and

(C) Pro Bono Economics for introducing us to TP and for arranging the evaluation to take place.

1.19 Finally, we would also like to thank Ashurst LLP for allowing us to take on this project and for making our time available to support such a valuable and worthwhile initiative. Ashurst is committed to creating a world leading pro bono practice alongside the firm's Corporate Responsibility programme, and Pro bono work is seen as being a key part of Ashurst's vision.

2. INTRODUCTION AND STRUCTURE OF THE REPORT

Introduction

2.1 TP is a specialist employment charity that helps disadvantaged adults and young people out of long-term unemployment, welfare dependence or homelessness, into jobs and self-sufficiency. The charity works with those facing multiple barriers to employment and aims to equip them with the skills and confidence they need to get and keep a job. The TP mission is to empower people to build the skills and confidence they need to move into and succeed in work, with its aim being to create a future in which everyone is equipped to get and keep a job, and progress in their place of work.

2.2 TP works with those people who have become detached from the world of work, and who face significant and often overwhelming barriers to getting a job. This includes some of the most vulnerable demographics in society such as young people, ex-offenders, people with disabilities, lone parents, the homeless, those on incapacity benefit and others who have been out of work for an extended period of time.

2.3 In 2013, TP was one of four charities awarded £30 million of funding (in total) over three years by HSBC's Opportunity Partnership. The funding offers financial support to help 25,000 people into employment, education or training (targeted at people aged 16 to 25 years old).[4] The partnership began in April 2013 and finished in April 2016.

2.4 The HSBC funding was primarily used for TP's three core youth programmes, which are summarised in Table 2.1 below.

Table 2.1: Overview of TP's core youth programmes

Programme	Target group / Locations	Overview of treatment
Work It Out (WIO) Started in 2004	Unemployed 16 to 24 year olds. Operates in East of England (Lowestoft), London (Barking, Hammersmith and Southwark), Northern England (Liverpool and Newcastle), South East England (Brighton and Maidstone), South West England (Bristol and Plymouth) and Scotland (Edinburgh, Inverclyde and Glasgow).	10-16 week programme (depending on the area) which prepares participants for work, further education or training by improving confidence and motivation. The programme also provides participants with opportunities to undertake community challenges in their local neighbourhoods to obtain team working skills.
In-2-Work (I2W) Started in 2010	Unemployed 18 to 24 year olds living in Lambeth Southwark and Wandsworth.	Developed in partnership with the Metropolitan Police Service, this scheme supports young people, many of whom are involved in gangs, to disengage from criminal activity and build positive lives

[4] The other charities are Catch22, St Giles Trust, and The Prince's Trust.

		through work or training. Helps participants into work by providing them with employment focused advice and guidance.
The Works! Started in 2011	Unemployed 16 to 24 year olds in isolated rural communities. Operates in Northern England (Amble), South East England (Heathfield and Hailsham) and Scotland (Galashiels).	10 week one-to-one programme that helps unemployed young people in isolated rural areas get into training, further education or employment in their local areas.

Source: Information from TP. Examples of Community Task Force projects include: decorating a community hall; improving a local park or garden; running holiday football courses; refurbishing a vehicle for community use and converting a derelict fire station into a local drop-in centre.

2.5 The following map shows the geographic locations of the three core TP programmes that received HSBC funding. As WIO was the largest programme (accounting for over 75 per cent of the HSBC funding received by TP), it covered many more locations than the other two programmes.

Figure 2.1: Locations of the HSBC-funded TP programmes

Source: Data provided by Tomorrow's People

2.6 The following table sets out the number of people that took part in each of the three HSBC-funded programmes, by location, between 1 April 2013 and 31 March 2016. It shows that the HSBC-funded programmes, particularly the WIO programme, have benefited a large number of disadvantaged young people over a large part of the country.

Table 2.2: Location and number of participants on the HSBC-funded programmes

Location	Programme	Participants
London	I2W	417
Brighton	WIO	143
Bristol	WIO	146
Edinburgh	WIO	197
Glasgow	WIO	384
Inverclyde	WIO	123
Liverpool	WIO	135
London	WIO	305
Lowestoft	WIO	108
Maidstone	WIO	153
Newcastle	WIO	171
Plymouth	WIO	318
Amble	The Works!	108
Blyth	The Works!	89
Galashiels	The Works!	131
Hailsham	The Works!	85
Heathfield	The Works!	109
Total	**I2W**	**417**
	WIO	**2,183**
	The Works!	**522**

Source: Data provided by Tomorrow's People

2.7 Consistent with the FTI study and the BoE update we have assessed the benefits in terms of public finance contributions rather than attempt to measure the wider benefits and costs to society as a whole. The main public finance benefits arising from the HSBC-funded TP programmes are:

(a) additional revenue for society through higher taxes and NICs;

(b) lower costs incurred by the welfare systems (e.g. on JSA and housing benefits); and

(c) the negative social impacts associated with long term unemployment, such as higher crime and poor health, which we have also sought to estimate.

2.8 In addition to assessing the economic benefits of the HSBC-funded TP programmes, we have also examined a range of other benefits of successfully moving young people into employment, education or training. These so-called "soft outcomes" are primarily in relation to improved personal, social, organisational and analytical skills. Whilst such soft

skills are typically harder to measure, it is widely recognised that soft skills outcomes represent intermediate stages on the way to achieving hard outcomes, and are therefore relevant to any such evaluation.

2.9 Following an introduction by Pro Bono Economics, TP asked Ashurst to conduct a social impact analysis of the HSBC funding, namely, to estimate the SROI of TP's three core youth programmes. The study addresses the question, for every £1 invested in TP's employment programmes (either in total or by HSBC), what is the value generated for British society.

2.10 In preparing this report, we have relied upon information and data from TP, evaluations by other consultancies on programmes run by TP (including the FTI report and the BoE update), and publically available material (e.g. from the Office for National Statistics ("**ONS**"), the Ministry of Justice, the Department of Work and Pensions, the Department of Health, and HM Treasury) and various academic articles.

Structure of this report

2.11 This report is structured as follows:

(a) Section 3 discusses the methodology used to conduct the evaluation, both in relation to the assessment of hard outcomes and also in relation to soft outcomes;

(b) Section 4 describes the updates that have been applied to the methodology used in the FTI study and the BoE update;

(c) Section 5 sets out the results from the evaluation; and

(d) Section 6 discusses some potential data improvements that would improve the reliability of future evaluations.

3. METHODOLOGY AND DATA

Overview of methodology

3.1 This study estimates the SROI in relation to three youth programmes run by TP (WIO, in-2-Work, and The Works!), which received funding from HSBC. The evaluation covers the period from April 2013 (i.e. the start of the HSBC funding) to April 2016.

3.2 In 2011, FTI conducted a SROI analysis of TP covering WIO (which, at the time, represented 13 per cent of the Trust's expenditure) and Welfare to Work (a programme aimed at motivating, upskilling and building confidence for the hardest to reach unemployed people, representing two-thirds of the Trust's expenditure).[5] FTI's analysis found that for every £1 invested by TP over the period 2006/7 to 2010/11, the value to British society was approximately £2.40. This was made up of the following components:

(a) the Welfare to Work programme generated benefits of £2.30 for each £1 of expenditure; and

(b) WIO generated benefits of £2.90 for each £1 of expenditure.

3.3 In addition, the BoE has undertaken an evaluation of WIO which updates FTI's analysis to 2013/14. This study finds that each £1 invested in the WIO programme between 2007 and 2014 has, on average, delivered economic benefits worth £3.80. Whilst the BoE acknowledged that this estimate is subject to some uncertainty, it nonetheless presents a strongly positive picture of the contribution of the WIO programme to the lives of the young people who participated in the scheme.

3.4 Accordingly, as the WIO programme falls within the scope of the current evaluation, we were aware at the outset that the previous evaluations have calculated a SROI of between £2.90 and £3.80 for each £1 spent on the programme. In addition, we were also presented with the underlying calculations behind these evaluations. For consistency, in particular to ensure the SROI estimates for the HSBC-funded WIO programme are comparable with the FTI study and the BoE update, the Ashurst study has followed the same broad analytical framework as that adopted by FTI and the BoE.

3.5 As set out further below, we have (where possible) also made a number of improvements to the methodology in order to improve the reliability of the results (e.g. where it is clear that some of the underlying assumptions can be replaced with hard data). However, as the analysis ultimately depends on a counterfactual scenario (i.e. what would otherwise have happened in a scenario without the TP programmes), the analysis is inevitably based on a number of simplifying assumptions which are subject to uncertainty. For consistency, we have adopted the same counterfactual scenario as the BoE evaluation.

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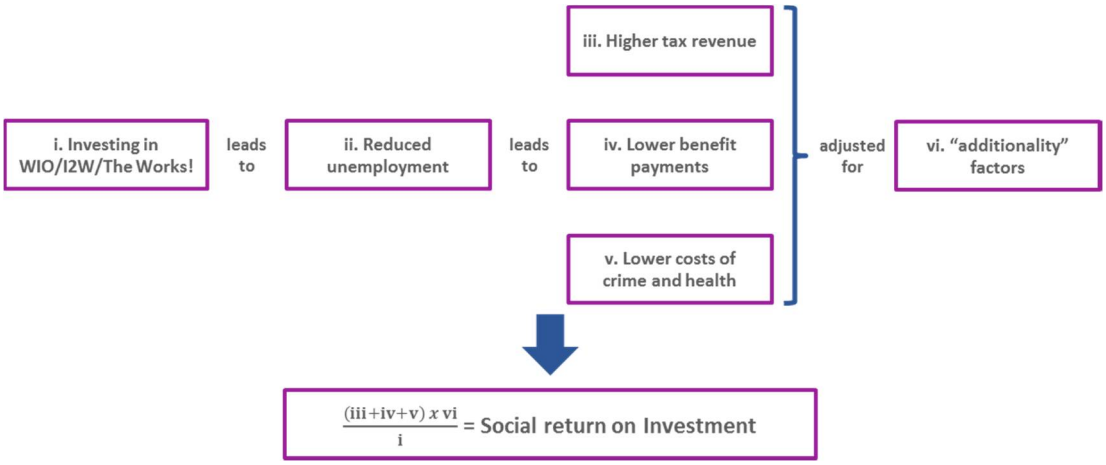
[5] Welfare to Work is not within the scope of this evaluation.

Hard outcomes

3.6 As mentioned above, all of TP's core youth programmes are targeted at young people who are not in employment, education or training. The interventions aim to reduce long-term unemployment by assisting participants to secure employment, or help them get into training/education in order to improve their employment prospects.

3.7 As shown in the following chart, the main benefits arising from these interventions are in relation to the additional revenue for society through higher taxes and lower costs incurred by the welfare system. Unemployment, particularly long term unemployment, is also associated with a range of negative social impacts which can also be estimated (e.g. on crime and healthcare).

Figure 3.1: Estimating the SROI for HSBC-funded TP programmes



3.8 Accordingly, in order to calculate the SROI in this evaluation, we have:

(a) identified the costs incurred by TP in running the three core youth programmes over the relevant period (including the level of HSBC funding attributed to those programmes);

(b) estimated the reduction in unemployment that has occurred as a result of the TP programmes, which involves comparing it to a counterfactual scenario as to how many people would otherwise have gained employment if the TP programmes had not taken place;

(c) evaluated the direct economic impacts of the interventions from lower levels of unemployment in relation to increased tax receipts, reduced benefit payments, and indirect social effects on health and crime; and

(d) adjusted the estimate of the economic impact for "additionality" factors and discount rate assumptions.

3.9 The analysis examines the costs and benefits of the different HSBC-funded TP programmes over a 20 year period within a Net Present Value framework (meaning that all costs and benefits are be expressed at current economic values). Each of the steps involved in this analysis are described in further detail below.

The HSBC investment

3.10 The first step in the analysis is to identify the investment made by HSBC in each of TP's core youth programmes subject to the evaluation. In order to estimate the SROI for each of these programmes, we also considered what additional costs were incurred in running these programmes. This is set out in the following table:

Table 3.1: HSBC investment and cost of TP programmes 2013/14 to 2015/16

Project	HSBC investment	Total cost of the programme
WIO	£3,349,261	£6,507,332
I2W	£508,408	£617,335
The Works!	£597,961	£1,557,970
Total	**£4,455,631**	**£8,682,637**

Source: Data provided by Tomorrow's People

3.11 As set out in Table 2.2 above, over 3,000 people participated on one of the TP programmes that received HSBC funding, with just under 2,500 people completing one of the courses. The overall costs per participant were as follows:

(a) £2,981 per person that took part in the WIO programme;

(b) £1,480 per person that took part in the I2W programme; and

(c) £2,985 per person that took part in the Works! Programme.

3.12 These costs provide the basis on which the benefits to cost ratio can be estimated in order to derive the SROI for each of the three HSBC-funded TP programmes.

The reduction in unemployment

3.13 One of the key drivers to the estimation of the main benefits associated with the HSBC-funded TP programmes is to estimate the reduction in unemployment that results from the programmes. This then needs to be compared to a counterfactual scenario, which estimates what would have happened to employment had the TP programmes not taken place, in order to derive the incremental benefits of the programmes (i.e. a proportion of participants would have achieved successful outcomes in any event).

3.14 There are three steps involved in the employment uplift calculation:

Step 1: Outcomes from TP's interventions

3.15 The first step in the analysis is to provide a measure of the number of people that directly benefit from the HSBC-funded TP programmes. This is in relation to those individuals that gain employment as a result of participating in one of the TP programmes, as well as those individuals that move into further education or training and who are, therefore, perceived as having a higher probability of gaining employment as a result.

3.16 TP has measured participant outcomes from each of the different HSBC-funded programmes at a number of different points in time (at the end of the intervention, at 6 weeks, 12 weeks, 26 weeks and 52 weeks after the intervention). At each point in time, participants are assigned to one of the following categories: employment, further education, training, volunteering, actively seeking, early leavers, volunteer still on programme, sick, dismissed, or not contactable.

3.17 Consistent with the approach adopted in the FTI study and the BoE update, we have taken the outcome numbers tracked by TP for each scheme at the end of the course and have recorded a participant as directly benefiting from TP's intervention if:

(a) they are either in employment, further education or training immediately following the course (assuming that those individuals in further education or training have a lower probability of unemployment in the longer term); and

(b) assumed that 25 per cent of participants actively seeking employment immediately following the course are then successful in finding employment.

3.18 Data provided by TP indicates that 872 people that participated in one of the HSBC-funded programmes (i.e. just under 35 per cent of those that completed the course) gained employment on completion of the course, and a further 1,183 people (47 per cent of those that completed the course) went into full time education or training. A further 396 of the course participants were then actively seeking work.

Step 2: The unemployment rate in the "counterfactual"

3.19 The second step in the analysis is to provide a measure of the unemployment rate in the absence of the TP programmes (i.e. in the counterfactual scenario). This relates to those individuals that would otherwise have obtained employment even in the absence of the TP programmes.

3.20 As the TP programmes are designed for some of the most disadvantaged and hard to reach individuals in society, this is a factor taken into consideration in estimating their prospects of employment under the counterfactual. In this regard, we have assumed that TP's youth programme participants would have (in the absence of TP's interventions) an initial unemployment rate which is three times the national average unemployment rate

for 18–24 year olds. This is the same assumption as applied in both the FTI report and BoE update.

3.21 We have also used the same average rate of unemployment as that used in the BoE update (16.2 per cent for the national average within the 18-24 age group category) calculated over a period to cover a full economic cycle. This gives rise to a counterfactual unemployment rate within this age group of 48.5 per cent (3 x 16.2 percent) for those participants of the HSBC-funded TP programmes.

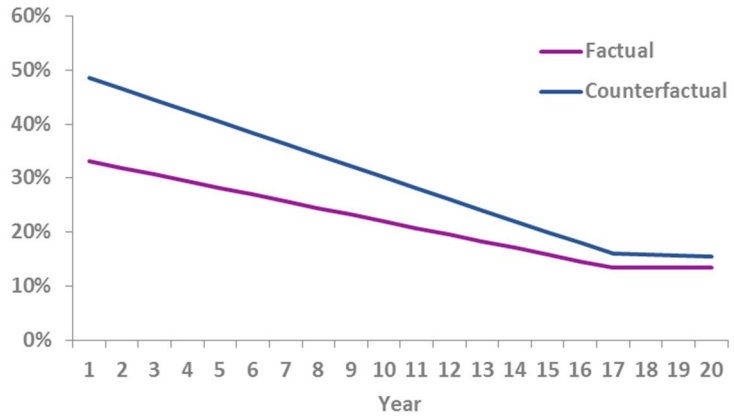
3.22 Going forward (i.e. in subsequent years beyond the initial cohort year) the counterfactual unemployment rate for participants of the TP programme is assumed to decline in a linear way to the national average for the relevant age group (i.e. over the 20 year period being considered as part of this evaluation). For consistency, we have adopted the same approach as in the BoE update.

Step 3: the unemployment rate in the "factual" scenario

3.23 The third step is to then calculate the rate of unemployment in the factual scenario (i.e. taking account of the beneficial outcomes of the TP programmes).

3.24 In this regard, the "counterfactual" rate of unemployment (as explained above) is adjusted downwards (in the first year) by a factor which captures the proportion of all those who have completed the TP programme and have found employment, gone into further education or training, and it assumes that a quarter of those actively seeking employment then get employment. Beyond the first year, we have adopted the same approach as in previous studies and assumed that participants of the TP programmes reach the lower average levels of unemployment sooner than in the counterfactual.[6]

Figure 3.2: Comparison of the factual and counterfactual rates of unemployment



[6] The approach adopted by FTI assumes that the unemployment rate in the factual and counterfactual scenarios converge to the national average over time. This approach may understate the unemployment rate towards the end of the period as it does not take into account the potential long-run effects on employment of coming from a disadvantaged background. It also potentially understates the benefits of the TP programmes as it assumes the reduction in the unemployment rate as a result of the programmes relative to the counterfactual level of unemployment, diminishes over time (which may not be the case).

3.25 As shown in Figure 3.2 above, the difference between the level of unemployment under the counterfactual scenario and the level of unemployment under the factual scenario (which takes account of the outcomes of the TP programmes) can then be estimated. This provides the basis for calculating many of the benefits of the HSBC-funded programmes (as discussed further below).

Increased tax receipts

3.26 Absent TP's youth programme schemes, many course participants would have lower educational and labour market attainment resulting in a lower probability of being employed (over the longer term). This would lead to lower wages earned over their lifetime (on average), which in turn results in lower taxes paid to the Exchequer.

3.27 We have therefore sought to estimate the additional tax revenue that the Government receives as a result of the HSBC-funded TP programmes. This involves the following steps:

(a) the change in the levels of employment that occur as a result of the TP programmes (i.e. the difference between factual and counterfactual outcomes) as discussed above;

(b) calculating the effective wage rate that would be obtained from employment, both as a result of participating in the TP programmes, and under the counterfactual scenario; and

(c) calculating the relevant tax that would be paid under both the factual and counterfactual scenarios.

3.28 The key assumptions and sources of data used for this calculation are as follows:

Wage rates

3.29 In the absence of data which records job outcomes from participants of the TP programmes, we have assumed (consistent with the FTI study and the BoE update) that the TP programmes result in an uplift in the wage rates that are available for participants that are successful in gaining employment (compared to the counterfactual scenario).

3.30 In order to estimate the magnitude of this wage premium, we have relied on the analysis undertaken by FTI in 2011, which calculated the wages earned by people who successfully gained employment following assistance from TP.[7] This resulted in an average hourly wage rate of £6.84 in 2011, compared to the national minimum wage in 2011 of £5.93 per hour, creating a wage premium of around 15 per cent. To bring the wage rate up to

[7] We understand that FTI estimated wage rates by matching job title data from the TP 2010 Welfare to Work Telephone survey with earnings information from the ONS Annual Survey of Hours and Earnings ("ASHE") survey. This survey collects information on wage rates by job category across the UK. Participant job titles were matched with ASHE job categories, with participants assumed to be earning wages for the 25th percentile.

date we have adjusted the hourly wage rate by the average rate of wage inflation in each year between 2011 and 2016 (using data from the ONS). This results in a wage rate of £7.54 per hour for participants on the TP programmes in 2016, compared to the national minimum wage of £6.70 per hour.[8]

3.31 In subsequent years, as data for the national minimum wage is not currently available, we have assumed that both the national minimum wage and wages earned by participants of the TP programmes increase in line with average wage inflation, which we have estimated as being 3 per cent per annum. This is based on the annual increase in average UK earnings between January 2001 to August 2016, and maintains the same level of wage premium relative to the national minimum wage in subsequent years.

Hours worked per week

3.32 In the FTI report and the BoE update, they both assumed that the participants of the TP programmes that were successful in gaining employment worked, on average, 40 hours per week. As discussed in the next section, we have revised this assumption downwards slightly. This is because ONS data shows that the average number of hours worked by full time workers in the UK over the last 3 years was 37.5 hours per week. We have not seen any evidence to suggest that participants of the TP programmes that are successful in gaining employment work in excess of this national average figure.

3.33 Accordingly, in the absence of any additional evidence, we think it would be more appropriate to assume that participants of the TP programmes who are successful in gaining employment work the national average of 37.5 hours per week. This adjustment would have the effect of slightly reducing the benefits of the TP programmes compared to those estimated in the FTI report and BoE update.

Income tax and National Insurance Contributions (NICS)

3.34 In order to calculate the amount of income tax payable by those individuals that have found employment as a result of the TP programmes, we have multiplied the average hourly wage rate by the number of hours worked, and deducted the relevant personal income allowance. The remaining income is then taxed at the appropriate rate.

3.35 In 2013/14, the relevant personal income allowance was £9,440 per annum. This increased to £10,000 in 2014/15 and £10,600 in 2015/16. The income earned by TP programme participants in excess of these personal income allowance thresholds, is then considered to fall exclusively within the 20 per cent tax band. We have assumed that in subsequent years (for which data is not available), the personal income allowance increases at the rate of average wage inflation (i.e. 3 per cent per annum), and that income in excess of the personal income allowance continues to be taxed at the 20 per

[8] As the national minimum wage has grown at a faster rate (up 13 per cent between 2011 and 2016) than average hourly earnings (up 10 per cent over the same period) the estimated wage premium has declined from 15 per cent in 2011 to around 12 per cent in 2016.

cent rate. This is on the basis that employment is still likely to be in low paid jobs, albeit slightly above the minimum wage.

3.36 It is of note, however, that changes in Government policy in recent years has resulted in a significant increase in personal income allowance thresholds (e.g. by 64 per cent between 2010/11 and 2015/16 from £6,475 to £10,600). Whilst this means that low income workers are now able to retain a much larger proportion of their income before tax is payable, it means that, based on the methodology adopted in this evaluation, less income tax is being paid by employees in low-paid jobs than was the case previously. This has a dampening effect on the benefits associated with the TP programmes.[9]

3.37 We have also estimated the amount of NICs payable, both by employees as well as employers. This involves estimating the average wages of participants that benefited from the TP programmes, and then applying the relevant NICs thresholds that applied in that year. In 2015/16, earnings in excess of £155 per week are subject to employee contributions at a rate of 12 per cent, as well as employer contributions at a rate of 13.8 per cent.[10] Actual data has been used in the period between 2013/14 and 2015/16, and we have assumed that the threshold at which NICs are payable increases at the rate of average wage inflation for future years.

Reduced benefit payments

3.38 As TP's youth programmes increase the probability of participants being employed, they also generate savings for the Exchequer in the form of lower benefit payments (compared to the counterfactual scenario). These savings will primarily comprise of a reduction of two key types of benefits: JSA and housing benefit.

3.39 In addition, there are a range of other potential benefits that are available to the unemployed (including, *inter alia*, council tax reductions, free prescriptions, free sight tests and dental treatment, free school meals etc.). Whilst we have focused on quantifying the reduction in both JSA and housing benefit, the assessment is likely to be on the conservative side as it does not capture these other categories of benefit which may be saved as a result of the higher levels of employment.

Job seekers allowance

3.40 JSA is a benefit that is paid to people who are out of work but actively seeking employment, with different rates for people in the 18 to 24 age group, and people aged 25 or over.

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9 For example, the FTI report assumed that the personal income allowance would increase to £7,506 in 2015/16, which compares to the actual rate of £10,600. This means that for each individual of the TP programmes that was successful in gaining employment, they pay £619 less in income tax than was considered previously.

10 As a simplifying assumption we assume that employee and employer contributions are paid on all income above the same threshold. In fact there is a small difference between the employee contribution threshold (primary threshold) at £155 per week and the employer contribution threshold (secondary threshold) at £156 per week.

3.41 As the TP programmes have resulted in an increase in employment (and reduction in unemployment) compared to the counterfactual scenario, we have estimated the reduction in JSA claimed by participants of the TP programmes that gained employment. In doing so, we have applied the actual rates of JSA between 2013/14 and 2015/16 as follows:

Table 3.2: JSA rates between 2013/14 and 2015/16

	18-24 age group - weekly benefit	25 or over age group - weekly benefit
2013/14	£56.80	£71.70
2014/15	£57.35	£72.40
2015/16	£57.90	£73.10

Source: https://www.gov.uk/national-minimum-wage-rates

3.42 In relation to future years for which data is not available, we have assumed that the benefit level increases in line with the target rate of CPI inflation (which is currently set at 2 per cent). In addition, as we are estimating the cost savings over a 20-year period, we also assume that successful participants of the TP programmes are in the 18-24 age group at the start of the assessment, but transition into the 25 or over age group in the not too distant future (therefore generating larger benefit savings due to the higher benefit thresholds).

3.43 The overall cost savings to the Exchequer are therefore estimated as the difference between the yearly JSA payments in the counterfactual scenario, less the yearly JSA payments in the factual scenario (which takes account of the lower levels of unemployment that arise as a result of the TP programmes).

Housing benefit

3.44 Housing benefit is a means-tested benefit that is intended to help meet housing costs for individuals who are unemployed or on low incomes. The means-tested nature of the benefit adjusts the maximum housing benefit available to levels of income (for both the individual and their partner), cash savings, and investment income, so that higher rates of household income result in less housing benefit being payable.

3.45 Given the complexity in calculating housing benefit, which requires detailed insight into the background of the participants of the TP programmes (as well as their partners' incomes), we have adopted the simplified approach used in the FTI report. In particular, the modelling assumes that housing benefit is calculated as follows:

$$HB = \text{Maximum HB} - 65\% \times (\text{Total Income} - \text{HB Personal Allowances})$$

3.46 In relation to estimating the maximum housing benefit payable figure, we have assumed that participants of the TP programmes receive the maximum local housing allowance for private renters for a house or flat with 2 bedrooms. In addition, information provided by

Shelter (2016) indicates that housing benefit is reduced by approximately 65p for every extra £1 that is earned, which supports the 65 per cent reduction factor applied in the formula.

3.47 This formula indicates that participants of the TP programmes who are successful in gaining employment will experience a reduction in their housing benefit as result of the higher incomes earned. However, in order to estimate the amount of housing benefit saved as a result of the TP programmes, this reduction needs to be compared to the counterfactual scenario. As mentioned above, the counterfactual has two effects:

(a) it assumes higher levels of unemployment than the factual scenario (we have assumed that the unemployed retain the maximum housing benefit available); and

(b) for those individuals that would have gained work even absent the TP programmes, we have assumed that they receive lower wages than participants of the TP programmes (and therefore receive higher levels of housing benefit as result).

3.48 We have taken account of both of these effects in order to provide an overall estimation of the housing benefit saved as a result of the HSBC-funded TP programmes delivering successful outcomes.

Effects on health and crime

3.49 Empirical evidence shows that unemployed people, particularly the long-term unemployed, are statistically more likely to have poorer health and have a greater involvement in crime than people in employment, thus imposing a higher cost on:

(a) the national health service (NHS); and

(b) policing and the criminal justice system.

3.50 As the TP programmes increase the probability of course participants being employed, it is therefore relevant to assess the impact that these programmes have on improving both the health and crime outcomes of participants. There are, however, intrinsic difficulties in seeking to quantify the magnitude of such benefits as it is difficult to isolate the effect of such employment programmes from other behavioural, social and environmental factors. The methodology that we have adopted is set out below.

Impact on health expenditure

3.51 The Department for Work and Pensions ("**DWP**") published a report in 2010, which described the methodologies for estimating the wider social and economic impacts of employment programmes.[11] The report states that the average NHS cost per year in 2008 for an unemployed person was £1,540, and approximately a third of these costs were

[11] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214384/WP86.pdf

expected to be saved as a result of an unemployed person finding employment. The report concludes that when an unemployed person moves into work they incur £508 less in NHS costs per annum (in 2008 prices).

3.52 We have, therefore, used these figures as the basis for estimating the reduction in health expenditure as a result of the HSBC-funded TP programmes. As these figures are in 2008 prices, we have upweighted the figures by the CPI rate of inflation in order to generate prices in each of the years for which the evaluation is taking place. For future years, we have also assumed that these figures continue to increase by the target rate of inflation (which is currently set at 2 per cent).

3.53 A further point to consider is whether there is any evidence to show that the longer term unemployed, or the harder to reach members of the labour force (who are typically the individuals that take part in the TP programmes) impose an even higher burden on the NHS than estimated by DWP. In this regard, the report acknowledges that the saving to the NHS from getting people into work is likely to be higher for those people with initially poorer health status. However, as we do not have sufficient information to determine whether the TP programme participants generally have a poorer health status or not, we have used the national average figure in this evaluation.

3.54 In order to estimate the savings to the NHS of the HSBC-funded TP programmes, we have:

(a) estimated the savings to the NHS under the factual scenario, which takes account of those individuals that have gained a successful outcome from participating in the TP programmes; and

(b) compared it to the higher level of unemployment under the counterfactual scenario.

3.55 The difference in the level of unemployment between the factual and counterfactual scenarios, multiplied by the cost savings per person to the NHS, then gives an estimate of the overall savings to the NHS of the HSBC-funded TP programmes.

Impact on crime expenditure

3.56 As mentioned above, empirical evidence indicates that higher levels of unemployment is typically associated with higher levels of crime. As the HSBC-funded TP programmes increase the probability of course participants being employed, it is therefore relevant to assess the impact that these programmes have on the amount of government expenditure on policing and the criminal justice system.

3.57 In estimating the cost savings of the TP interventions on crime expenditure, we have used the methodology adopted in the FTI report (and updated by the BoE). The factors that we have taken into account in this evaluation include the following:

(a) reduced prison costs as a result of lower levels of crime. In this regard, a recent (2016) report by the Ministry of Justice indicates that the average cost per prison place in 2015/16 was £35,182.[12] We have used this average figure in the evaluation in order to estimate the reduced prison costs associated with higher levels of employment. As prison costs per place have declined in recent years, we have maintained this figure in nominal terms throughout the evaluation rather than making an adjustment for inflation (which may represent a slightly conservative assumption); and

(b) the reduced costs of crime on society and the criminal justice system. The DWP report in 2010, which described the methodologies for estimating the wider social and economic impacts of employment programmes, indicates that the average cost of a crime by a male in the 17-24 age group was £5,170 in 2009, and the average cost of a crime by a female in the 17-24 age group was £1,250. We have used the average figure for men and women (£3,210) in the evaluation.[13] As these figures are in 2009 prices, we have upweighted the figures by the CPI rate of inflation in order to generate prices in each of the years for which the evaluation is taking place, and have assumed that these figures continue to increase by the target rate of inflation in future years.

3.58 In order to estimate the overall savings as a result of the lower rates of crime, we have adopted a similar approach to estimating the savings to the NHS as a result of lower levels of unemployment. This includes: (i) estimating the savings from crime under the factual scenario, which takes account of those individuals that have gained employment from participating in the TP programmes; and (ii) compared it to the higher level of unemployment that would arise under the counterfactual scenario. The difference in the level of unemployment between the factual and counterfactual scenarios, multiplied by the cost savings per crime/place in prison (adjusted for the probability that a participant is sent to prison), then gives an estimate of the overall savings to crime expenditure as a result of the HSBC-funded TP programmes.

Soft outcomes

3.59 In addition to the hard outcomes mentioned above, the TP programmes also give rise to a range of softer skills outcomes. These are positive outcomes from training, support or guidance which unlike hard outcomes, such as employment, cannot readily be measured directly or tangibly.

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[12] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/563326/costs-per-place-cost-per-prisoner-2015-16.pdf

[13] Estimating the costs of crime is subject to significant uncertainty. However, we note that the figures adopted by FTI are potentially conservative. For example, Braakmann (2016) estimates that each case of anti-social behaviour costs society between £5,000 and £6,700 and each violent crime between £5,000 and £13,300. http://journals.sagepub.com/doi/abs/10.1177/0042098016634611

3.60 Identifying (and measuring where possible) soft outcomes is important in order to capture the benefits resulting from the TP programmes that may be missed if only hard outcomes are recorded. As set out in a DWP guidance document titled "*A Practical Guide to Measuring Soft Outcomes and Distance Travelled*",[14] these outcomes are highly relevant to any evaluation because they often represent intermediary stages on the way to achieving hard outcomes. For example, a programme that improves personal and interpersonal skills, and self-esteem, is likely to improve the chances of employment even if employment has not been obtained in the near term. In addition, even when participants are able to achieve hard outcomes, they may also benefit from developing softer employability skills (which may lead to higher wages).

3.61 In this regard, soft outcomes may include achievements relating to:

(a) interpersonal skills, for example, improved social skills and responses to authority;

(b) organisational skills, such as personal organisation, and the ability to order, prioritise and meet deadlines;

(c) analytical skills, such as the ability to exercise judgement, managing time or problem solving;

(d) personal skills, for example, insight, motivation, confidence, appearance and presentation, reliability and health awareness; and

(e) communication skills, such as better written and oral communication.

3.62 An improvement in softer skills may also lead to a range of other "spillover" benefits, such as an improvement in financial literacy, or the participant being a more active and informed consumer. These are also relevant factors to consider in an assessment of the effectiveness of the HSBC-funded TP programmes.

3.63 We understand that TP has been seeking to measure improvements in the soft skills of programme participants. For example, in relation to the WIO and The Works! programmes, TP has collected data (by surveying course participants at the start and end of the programmes) in relation to improvements in (i) confidence; (ii) self-worth; (iii) commitment; (iv) problem solving; (v) talking skills; (vi) listening skills; and (vii) competence. This evidence suggests a range of soft skills benefits of the TP programmes.

3.64 However, given the extensive assumptions that would be required in order to build the improvement in soft skills into the SROI calculations, we have not sought to attempt to quantify the economic effects of soft skills in this evaluation. We have, however, where possible reported the statistics which suggest a dramatic improvement across all the different categories of soft skills of programme participants, which demonstrates wider

[14] A Practical Guide to Measuring Soft Outcomes and Distance Travelled, Guidance Document, June 2003, Department for Work and Pensions.

benefits of the HSBC-funded TP programmes. This also provides a further reason why the SROI assessment should be regarded as a conservative estimate.

"Additionality" factors and discount rate

3.65 In any form of investment appraisal, it is important to exclude benefits that would have occurred in any event. Similarly, it is also important to take into account any detrimental effects that might arise from the TP programmes as well as the positive effects. These are collectively known as "additionality" factors.

3.66 There are several such effects that were taken in account in the FTI report and the BoE update, which we have also adopted in this evaluation. These include:

(a) *The displacement effect*. This refers to the opportunity cost of investing in the current HSBC-funded TP programmes at the expense of other potential programmes. In other words, it is the net effect on the economy of the spending on the TP programmes relative where that money may otherwise have been spent that is relevant to evaluating the effectiveness of the TP programmes. We have assumed the same displacement rate as that used in the FTI report and the BoE update (of 20 per cent);

(b) *The substitution effect*. This refers to the cannibalisation effect whereby a job taken by a participant of the TP programme would otherwise have gone to another person. The DWP report in 2010, which described the methodologies for estimating the wider social and economic impacts of employment programmes, recommends a rate of 20 per cent to take account of the substitution effect. As this is consistent with the approach adopted in the FTI report and the BoE update, we have used the same figure in our analysis; and

(c) *The multiplier effect*. This refers to the knock-on effects on spending in the economy as a result of participants of the TP programmes gaining employment and having more disposable income to spend, which in turn fuels further activity in the economy. This is potentially relevant given the reforms to the personal income allowance which, as discussed above, results in less tax being payable by people employed in low-paid jobs, which has resulted in people in low-paid jobs having a higher level of disposable income to spend. However, in order to be consistent with the FTI report and the BoE update, we have assumed the same multiplier effect as used in those reports (which assumes no additional multiplier effect benefits to the economy from the TP programmes).

3.67 A further factor which has already been taken into account in the analysis is what is known as the "deadweight" effect. This refers to those people that were helped into work as a result of participating in the TP programmes but might have been expected to get a job in any event. Clearly, it would be wrong to attribute all of the benefits from these people gaining employment to the TP programmes. As set out above, our analysis in this

evaluation has involved comparing the factual with a counterfactual scenario, which takes this "deadweight" effect into account. Accordingly, no further adjustments have been made.

3.68 The additionality factors set out above tend to be greater where the intervention is targeted towards harder-to-reach people, as in the case of the HSBC-funded TP programmes. Although there is considerable literature and advice on factoring in the effects described above, estimates vary considerably. Accordingly, in order to be consistent with previous evaluations, we have adopted the same approach as in the FTI study and BoE update.

3.69 In addition, in order to calculate the net present value of the costs and benefits involved in the TP programmes over a period of time, we have applied a discount rate in order to convert everything into 2016 prices. As discussed further in the next section, we have applied a discount rate of 2 per cent to take account of the future effects of inflation (which is consistent with the approach adopted by FTI and the BoE), but have also applied an additional discount rate of 3.5 per cent to take account of the social rate of time preference, as recommended in the HM Treasury Green Book.[15] This reflects the rate at which society is willing to substitute the present for future consumption, and is based on the principle that, generally, people prefer to receive goods now rather than later. This is a modification on the approach adopted in the FTI study and BoE update.

[15] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

4. UPDATES TO METHODOLOGY USED IN PREVIOUS EVALUATIONS

4.1 As explained above, our analysis of the economic effects of the HSBC-funded TP programmes uses the model developed by FTI in 2011, and updated by the BoE in 2015/16. While we have used the same underlying model as that used in the FTI report and the BoE update, we have made a number of changes to update and refine this analysis. These changes can be separated into two groups:

(a) updates to the data and assumptions that feed into the model; and

(b) changes to the methodology, i.e. how the model calculates costs and benefits.

4.2 Set out below is an explanation of the changes that we have made.

Updates to the data and assumptions

4.3 The data updates that we have undertaken include the following. We have:

(a) added data on the total amount of HSBC funding provided to the WIO, I2W and The Works! programmes for each of 2013/14, 2014/15 and 2015/16. As shown in Table 3.1 above, total HSBC funding allocated to the three programmes amounted to £4.46 million in nominal terms (i.e. not adjusted for inflation);

(b) updated data on the financial cost to TP of running and administering the WIO, I2W and The Works! programmes in each financial year. As shown in Table 3.1, the total cost of the three programmes between 2013/14 and 2015/16 amounted to £8.68 million in nominal terms (which is inclusive of the HSBC funding);

(c) added data from TP on the outcomes of WIO, I2W and The Works! programmes for 2013/14 to 2015/16. The data on outcomes includes the number of participants on each programme, the number of programme participants that secure employment, enrol in training schemes, enter further education, or are actively seeking employment at the end of the programme;

(d) updated key inputs to the calculation of tax and benefit impacts based on changes to rates set by the UK Government. For example, we have updated the minimum wage rates, personal tax allowance thresholds, the national living wage (see further below) and JSA rate;

(e) updated the assumed hours worked per week. As mentioned in Section 3, the FTI study and BoE update assume that the average full time employee works 40 hours per week (and that this applies to each participant of the TP programmes that is successful in gaining employment). However, based on ONS data over the last 3 years, we have used a figure of 37.5 hours per week as this is more consistent with average hours worked per employee in the UK over that period;

(f) updated the rate of wage inflation. The FTI study and BoE update assume wage growth in future years is 3.5 per cent. We consider a figure of 3 per cent is more consistent with UK wage growth over the last 15 years (based on ONS data);

(g) updated the cost of a place in prison to reflect the most recent (2016) data available from the Ministry of Justice; and

(h) updated the housing benefit rate based on actual Local Housing Allowance rates for 2015/16. We have calculated separate rates for each programme based on a weighted average of the local authority rates in which the programmes are based.[16] The average rate is lowest for the Works! programme which is based in rural areas, and highest for the I2W programme which is based in London.

Changes to the methodology

4.4 We have updated the FTI and BoE methodology in a number of ways to make the results more robust. The adjustments that we have made include the following:

(a) **Updated the minimum wage rates (in the counterfactual) to reflect (i) national living wage in 2015/16, and (ii) the weighting of wage rates for the under 25s**. As explained in Section 3, we have assumed (consistent with the FTI study and the BoE update) that the TP programmes result in an uplift in wage rates to scheme participants who are successful in gaining employment.

In the scenario with the TP programmes, an average per hour wage rate is used based on FTI's analysis of wages earned by people who successfully gained employment following assistance by TP (with this rate being uplifted by wage inflation in subsequent years).

In the scenario without the TP programmes, an average per hour wage is calculated using the prevailing national minimum wage:

(i) for under 25s, the wage rate adopted is a weighted average of the minimum wage for adults (i.e. for workers aged 21 and above) and the development wage rate (i.e. for workers aged 18 to 21).[17] In comparison, the FTI study and the BoE update used the development rate for the entire under 25 age group, which we consider inappropriate given that a proportion of workers are aged between 21 and 25 years old; and

(ii) in April 2016 the Government introduced the National Living Wage for all working people aged over 25. We have assumed that the National Living Wage applies to all participants eight years after the start of the programme

[16] https://www.gov.uk/government/statistics/local-housing-allowance-lha-rates-applicable-from-april-2015-march-2016

[17] The weighting is based on ONS data on the ratio of the population of 16–20 year olds to the population of 21–24 year olds.

(i.e. when all participants should be 25 or over). This has the effect of increasing the benefits of the TP programmes for two reasons. First, the National Living Wage is higher than the adult minimum wage.[18] As the National Living Wage came into effect after the FTI study and BoE update were published, it was not reflected in their results. Second, the FTI study and the BoE update used the development rate for the entire modelling period. Even without the introduction of the National Living Wage we consider it appropriate to apply the higher adult rate (rather than a weighted rate) in later years of the modelling period.

(b) **Updated the JSA that applies when participants reach the age of 25.** The FTI study and BoE update applied the JSA weekly rate for 18 to 24 year olds across the entire modelling period (which is scaled up to a yearly amount and then applied to the proportion of participants successfully gaining employment in the scenarios with and without the TP programme). We consider that this assumption is not appropriate because after eight years (at a maximum) all participants should be aged 25 or over and would therefore qualify for the higher adult JSA rate. This has the effect of increasing the benefits which are saved by the TP programmes in later years of the analysis.

(c) **Updated the model to include NICs.** A key benefit of the TP programmes included in the FTI study and BoE update is the increased tax revenues that arise as a consequence of TP's intervention. However, the FTI study and BoE update only include increased revenues from income tax. We consider that it is also appropriate to include additional revenues from NICs (in relation to both employee and employer contributions). This has the effect of increasing the tax revenues that arise as a consequence of the TP programmes.

(d) **Applied a social time preference discount rate.** In the FTI study and the BoE update, the future costs and benefits are discounted using a 2 per cent rate. FTI states that "*We use the Bank of England target Consumer Price Index (CPI) inflation rate of 2% to convert all future prices into constant 2010 prices.*"[19] In our opinion, an additional discount rate should be applied to reflect the rate at which society prefers the present to the future (known as the social time preference rate). This is based on the principle that, generally, people prefer to receive goods and services now rather than later, with the HM Treasury Green Book recommending a rate of 3.5 per cent (applied to constant prices) as being appropriate. We have, therefore, applied a social time preference rate of 3.5 per cent in addition to the 2 per cent discount rate used to convert to constant prices. This has the effect of reducing the benefits achieved by the TP programmes because a higher discount rate lowers the value of future benefits in present terms.

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[18] In April 2016 the National Living Wage was £7.20 per hour, whereas the Adult Minimum Wage was £6.70 per hour.

[19] FTI study, paragraph 9.26.

(e) **Dispensed with separate calculations of short and long run benefits**. The FTI study adopted a different approach to calculating the marginal impact of the WIO programme on employment in the short run as compared to the long run.[20] We see no reason for treating these time periods differently as the same data is used in calculating the short run and long run benefits. We have, therefore, applied the long run approach across the entire 20 year period (rather than starting in year 2, which was the approach adopted in the FTI report).

(f) **Adjusted the number of participants that are responsible for crime and health benefits.** FTI and the BoE based the calculation of health and crime benefits on the total number of participants that complete each TP programme, regardless of whether they achieve a positive outcome or not. However, as explained above, the calculation of health and crime benefits arise from a reduction in the number of people unemployed as a result of the TP programmes. We therefore consider that the health and crime benefits should be consistent with the calculation of tax benefits (i.e. calculated on the number of participants that achieve a successful outcome rather than all participants that complete the course). This has the effect of reducing the health and crime benefits as the number of participants that achieve a successful outcome is lower than the total number of participants that complete the TP programmes.

(g) **Adjusted the housing benefit calculation**. FTI and the BoE calculate the amount of housing benefit saved based on the number of participants that achieve a successful outcome, but assume all of the participants that complete the course are then employed.[21] Instead we have calculated the housing benefit for employed and unemployed participants separately in both the factual and the counterfactual scenarios. As outlined in Section 3 above, there are two effects of the TP programmes on housing benefit payments:

(i) the number of people unemployed is lower as a result of the TP programmes than in the counterfactual scenario, which reduces the amount of housing benefit payable; and

(ii) participants of the TP programmes earn a higher wage than in the counterfactual scenario, which further reduces the amount of housing benefit payable.

Our revised approach separates out these two effects.

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[20] In the long run, FTI modelled the probabilities of employment / unemployment over 18 years, with the starting point for the counterfactual being that WIO participants are 3 times more likely than the national average to be unemployed. The short run is modelled using data on successful outcomes identified by Tank (2010) within a short term time frame (i.e. within the first 18 months after the end of the course).

[21] This approach is inconsistent with the calculation of other benefits, which assumes the probability of unemployment for these participants is lower than in the counterfactual, but still positive.

(h) **Adjusted the wage premium.** FTI and the BoE assume the estimated wage premium in 2011 (15 per cent above the minimum wage) is constant in all future years. As set out above, for the period 2011 – 2016, we have adjusted the wage that participants of the TP programmes earn by the rate of actual average wage inflation in each year. As wages have grown at a slower rate than the national minimum wage, this has reduced the wage premium earned by participants of the TP programmes to around 12 per cent in 2016.

(i) **Adjusted the base year**. We have also adjusted the base year (i.e. the year in which monetary values are presented) to 2016 rather than 2011. While this does not affect the SROI (as costs and benefits are affected equally) it does increase the overall magnitude of both the benefits and costs of the TP programmes.

4.5 Notwithstanding these updates, the model can be calibrated to produce results without these updates in order to derive results which are consistent with the approach taken by the BoE. The difference in the SROI as a result of these adjustments is explained further in the following section.[22]

[22] Due to significant changes made to the model as part of the BoE update we have been unable to derive results consistent with the FTI methodology.

5. HEADLINE RESULTS

Hard outcomes

5.1 Our analysis finds that for each £1 invested in the three HSBC-funded TP programmes between April 2013 and April 2016, the average benefit to British society was £4.20. In relation to the specific projects, for each £1 invested:

(a) the WIO programme delivered economic benefits of £4.18;

(b) the In-2-Work programme delivered economic benefits of £7.04; and

(c) The Works! programme delivered economic benefits of £3.15.

5.2 A breakdown of the benefits and costs for the different programmes (in current 2016 prices) is shown in the table below.[23]

Table 5.1: Costs and benefits for 2013/14 – 2015/16

	WIO	I2W	The Works!	Total
Net economic benefit (£m)	44.8	7.2	8.0	60.0
Increased tax revenue (£m)	18.2	2.9	3.6	24.6
Reduced benefit expenditure (£m)	14.1	2.3	2.0	18.4
Reduced cost of crime (£m)	11.3	1.8	2.2	15.4
Reduced cost of healthcare (£m)	1.2	0.2	0.2	1.6
Adjusted net economic benefit (£m)	28.7	4.6	5.1	38.4
HSBC funding (£m)	3.5	0.5	0.6	4.7
Total cost of programme (£m)	6.9	0.7	1.6	9.1
SROI (£s per £1 of expenditure)	**4.18**	**7.04**	**3.15**	**4.20**
Benefit-HSBC funding ratio*	8.17	8.64	8.17	8.22

Source: Ashurst analysis of data provided by Tomorrow's People. *In calculating the benefit-HSBC funding ratio, this assumes the same level of benefits are derived from the TP programmes, but only includes the HSBC funding element of the programmes (i.e. it excludes some other costs that were incurred) and therefore overstates the return on investment.

5.3 Our analysis shows that all three of the HSBC-funded TP programmes delivered significant economic benefit. In total, the three programmes generated benefits to the British economy of £60 million. The majority of this benefit comes from the WIO programme, which 1,831 young people completed during this period, compared to 267 people for the I2W programme and 409 people for The Works! programme.

5.4 The net economic benefit to society is comprised of the following:

[23] The amount of HSBC funding and the total cost of the programmes in Table 5.1 is slightly different to the figures set out in Table 3.1 as the numbers have been converted into current 2016 prices.

(a) £24.6 million in additional tax revenues and NICs to the British economy as a result of course participants having a better chance of obtaining paid employment, and at higher wages;

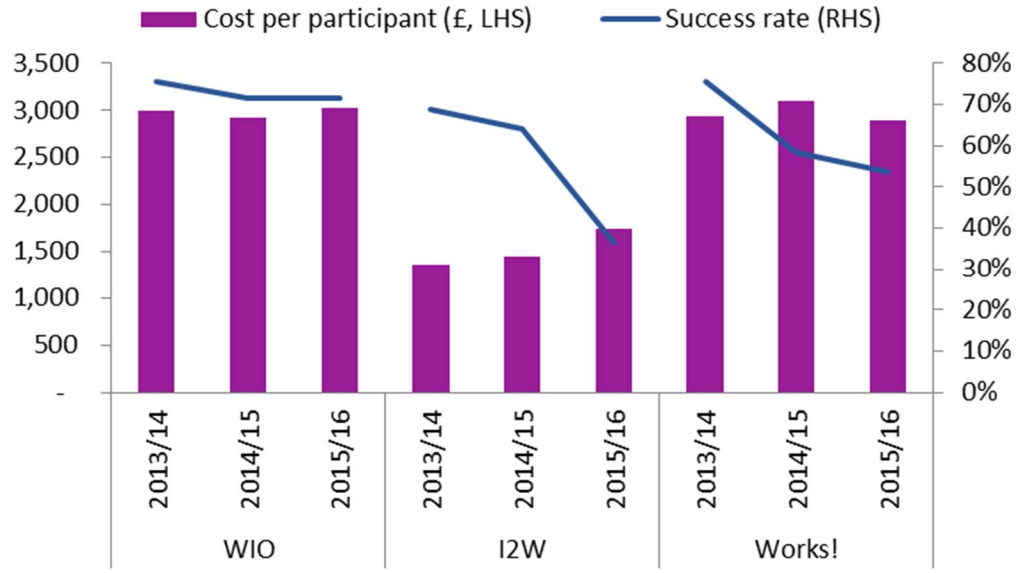
(b) £18.4 million in benefits savings for the Exchequer, particularly in relation to a reduction in JSA and housing benefit;

(c) £1.6 million of potential reduced public expenditure on health issues, which are linked to the vulnerable demographics being targeted by the TP programmes; and

(d) £15.4 million of potential reduced police, legal and prison costs.

5.5 While the WIO programme had the highest net benefit in absolute terms, the SROI was higher for the I2W programme. This is largely due to the lower cost per participant for the I2W programme (which was around £1,500 compared to around £3,000 for the WIO and The Works! programmes). The figure below shows the cost per participant (in 2016 prices) and success rate by programme for each year.[24]

Figure 5.1: Cost per participant and success rate by programme



Source: Ashurst analysis of data provided by Tomorrow's People

5.6 Figure 5.1 shows that the WIO programme has had a fairly consistent success rate (at around 70 per cent) throughout the 3-year period, and the cost per participant has remained relatively stable (at around £3,000). In comparison, The Works! has experienced a decline in the number of participants achieving a successful outcome in each of 2014/15 and 2015/16, whilst the cost per participant has remained at around £3,000, which has resulted in a lower SROI figure.

[24] The success rate is defined as the proportion of participants that directly benefit from the Tomorrow's People programme as defined in paragraph 3.17.

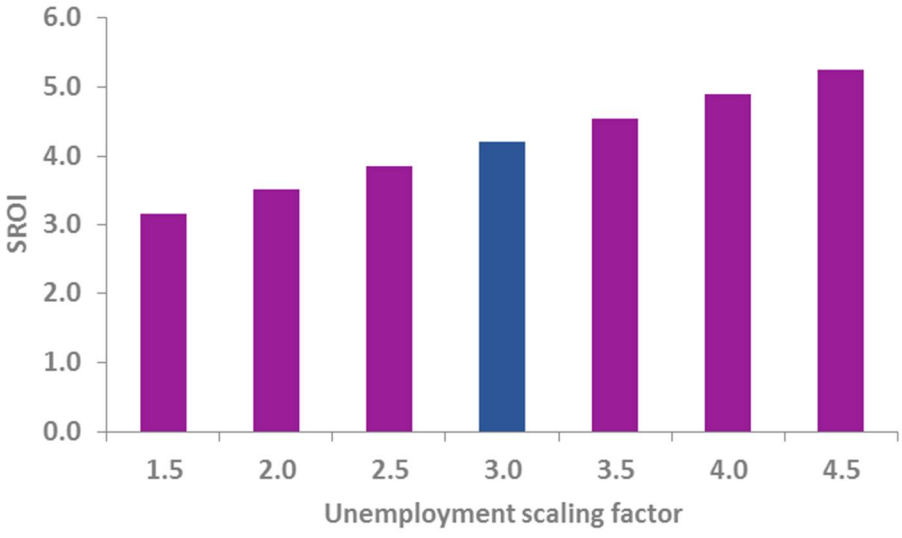
5.7 However, with the exception of 2015/16, the I2W programme has had a similar success rate as the other two programmes, but at a significantly lower cost per participant, which is resulting in the much higher SROI figure. Clearly, it would be useful to understand the reasons for this (e.g. whether it is due to larger class sizes or some other cost savings which has been achieved without sacrificing quality), and whether there are efficiency savings which could be applied to WIO and The Works! in future in order to derive an even higher SROI.

Sensitivity analysis

5.8 As explained above, a number of the assumptions that input to the SROI calculation are inherently uncertain. In order to reflect this uncertainty, we have tried to take a reasonable approach to estimating the key assumptions, and on this basis have revised a number of the assumptions used in the FTI study and BoE update (as explained in Section 4 above).

5.9 One of the key assumptions in the evaluation is the unemployment scaling factor, which determines the unemployment rate in the counterfactual. As explained in Section 3, we have used the same unemployment scaling factor as FTI and the BoE, i.e. an initial unemployment rate which is 3 times the national average unemployment rate for 18–24 year olds. However, the unemployment scaling factor is difficult to quantify accurately, and this has an impact on the SROI calculations. The figure below shows how the overall SROI varies for different unemployment scaling factors.

Figure 5.2: SROI results for different unemployment scaling factors



Source: Ashurst analysis of data provided by Tomorrow's People

5.10 While the SROI is sensitive to the unemployment scaling factor, even when the scaling factor is reduced to 1.5 (i.e. which is below the level which we think is reasonable given the cohort of participants on the programmes), the three programmes still deliver an overall SROI of £3.17 for each £1 spent. As discussed in the next section, this is one of

the areas TP could seek to collect additional data in future in order to better understand the counterfactual scenario.

5.11 We have also considered a high and low scenario, which provides a range to the base case SROI calculations presented above. This range is shown in Figure 5.2 below, with the different assumptions in the three scenarios shown in Table 5.2.

Figure 5.3: Range of SROI results compared to the base case

Source: Ashurst analysis of data provided by Tomorrow's People

Table 5.2: Different assumption in low, base and high scenarios

Assumption	Low scenario	Base Scenario	High scenario
Hours worked per week	35 hours	37.5 hours	40 hours
Wage inflation	2.5%	3%	3.5%
Unemployment scaling factor	2.5	3.0	4.0
Additionality factor	49%	64%	64%

5.12 These results show that even in our low scenario all three programmes deliver a significant positive benefit to society, with the SROI (for each £1 of expenditure) being £2.20 for The Works!, £2.70 for WIO and £4.60 for I2W. Under the high scenario, the SROI ranges from £4.00 for the Works! to £8.80 for I2W for each £1 of expenditure. Accordingly, irrespective of the approach taken, our analysis shows that the HSBC-funded TP programmes have delivered a significant net benefit to society relative to the investment made.

Comparison to the BoE update

5.13 We have also considered how the results of our evaluation compare to the BoE update, which evaluated the WIO programme for the period between 2007 and 2014, taking into account the methodological changes that we have made (as set out in Section 4).

5.14 As mentioned above, the BoE update estimated that for each £1 invested in the WIO programme between 2007 and 2014, the SROI was £3.80. In this regard, a number of the changes that we have made in this evaluation increase the BoE's estimated SROI, whilst various other changes that we have made have a negative impact on the SROI.

5.15 The changes that lead to an increase in the SROI estimated by the BoE are as follows:

(a) the inclusion of NICs increases the SROI by 0.99 due to the benefits from increased tax revenues;

(b) the inclusion of the national living wage increases the SROI by 0.91 (due to higher income tax revenues);

(c) the decision to use a weighted minimum wage rate for under 25s (based on an average of the development and adult minimum wage rate), which is higher than the development rate used by the BoE, increases the SROI by 0.11;

(d) the adjustment to the housing benefit calculation explained in Section 4 increases the SROI by 0.11; and

(e) the inclusion of the adult JSA rate for participants over the age of 25 (i.e. after eight years), rather than using the 18–24 rate for the entire modelling period, increases the SROI by 0.09.

5.16 The changes that lead to a reduction in the SROI estimated by the BoE are as follows:

(a) the decision to discount future costs and benefits at the social time preference rate plus the rate of inflation (rather than just the rate of inflation) reduces the SROI by 1.51. The overall effect is negative because a large proportion of the benefits occur in future years (and are discounted at a higher rate due to the revised discounting approach) whereas all of the costs are incurred between 2013 and 2016 (and are not, therefore, significantly affected by the discounting approach);

(b) updating some of the key assumptions including the minimum wage rate, personal income allowance, JSA rate, prison costs, wage inflation, average hours worked per week and housing benefit rate, has the net effect of reducing the SROI by 0.53. Most of this impact comes from the lower prison costs, lower average hours worked per week and lower wage inflation which has a negative impact on the calculations;

(c) adjusting the wage premium from 15 per cent to 12 per cent, to reflect the fact that wages have grown at a slower rate than the national minimum wage, reduces the SROI by 0.35;

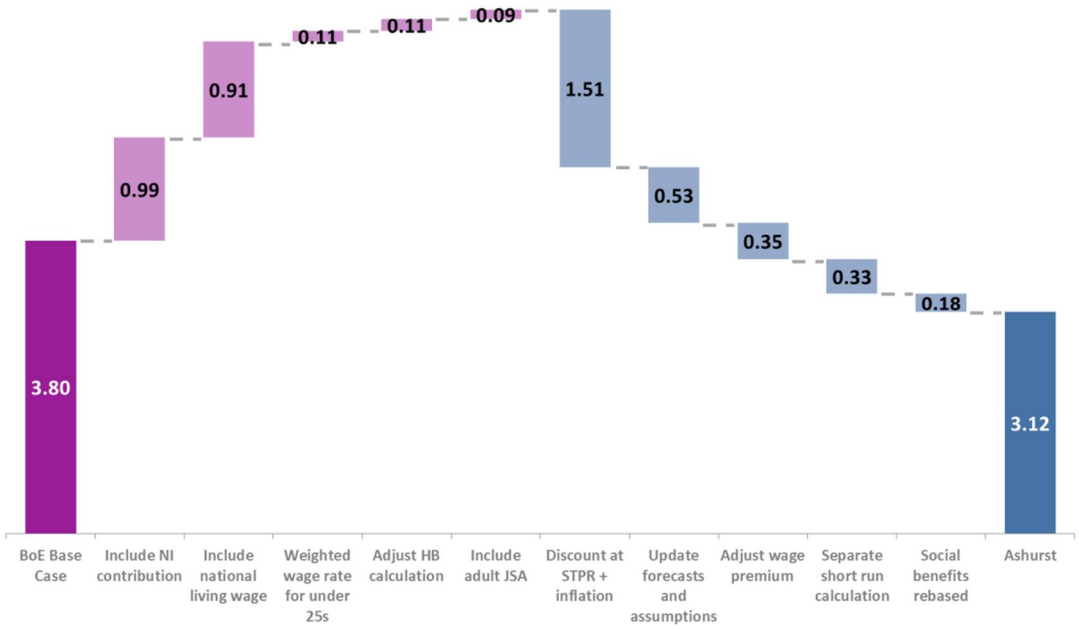
(d) dispensing with separate short run and long run calculations reduces the SROI by 0.33. We see no reason for the distinction made by FTI and the BoE, which

potentially overstates the SROI by considering the benefits over a period longer than 20 years; and

(e) rebasing the social costs so that they are calculated based on the number of participants that achieve a successful outcome rather than the total number of participants on the course reduces the SROI by 0.18.

5.17 The overall net effect of these changes is to reduce the SROI estimated by the BoE for the WIO programme from £3.80 to £3.12 per £1 invested. These changes are summarised in the figure below.

Figure 5.4: Impact of methodology and assumption changes on the WIO 2007 – 2014 SROI estimated by the BoE



5.18 Although the refinements that we have made to the methodology result in a net reduction to the SROI estimated by the BoE, the SROI that we have estimated for the WIO programme (for the period 2014 to 2016) is higher than the SROI estimated by the BoE (£4.20 compared to £3.80). The key reason for this is that the cost per participant for the WIO programme has fallen in real terms, without adversely affecting the proportion of participants benefiting from the programme.

5.19 This analysis shows that the WIO programme is continuing to generate strong and positive benefits for society, which is consistent with the conclusion reached by the BoE, even once the methodological refinements that we have made are taken into account.

Soft skills outcomes

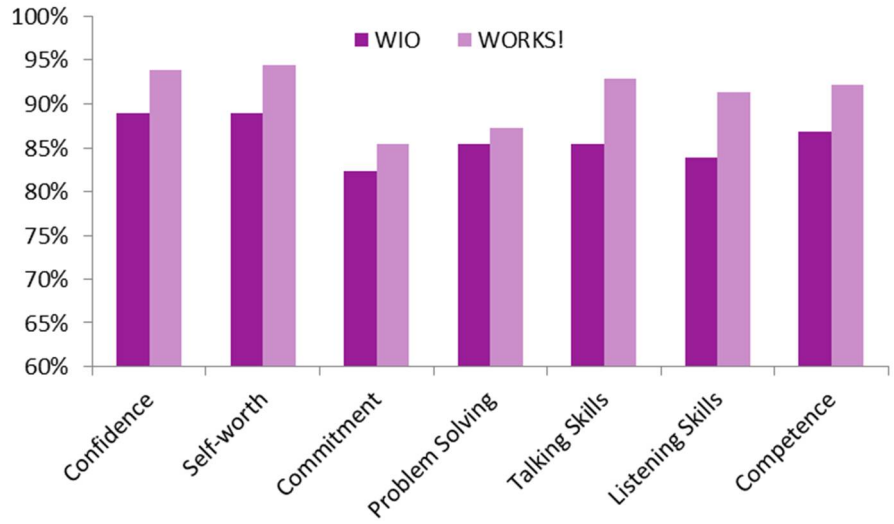
5.20 TP has introduced a mechanism to measure improvements in the soft skills of programme participants through a system called Steps to Success. Steps to Success involves all

participants completing a self-assessment questionnaire at the beginning of the TP programme. The questionnaire asks participants to evaluate their soft skills in relation to (i) confidence; (ii) self-worth; (iii) commitment; (iv) problem solving; (v) talking skills; (vi) listening skills; and (vii) competence. Participants are then asked to repeat the questionnaire at four more points during and after the TP programme, allowing TP to assess how soft skills have improved as a result of the programme.

5.21 When young people join the TP programme they often perceive their soft skills to be better than they actually are. Therefore, when TP records three or more Steps to Success assessments, the individuals second and final reading are compared to evaluate performance (so as to remove the positive response bias in the initial assessment). If a participant only completes two Steps to Success questionnaires then TP compares both results, recognising that this may understate the actual improvement in soft skills due to the positive bias of the initial reading. If a participant has completed only one Steps to Success questionnaire, no comparison can be made.

5.22 The figure below shows the percentage of participants that registered an improvement in each of the soft skills measured by Steps to Success split between the WIO and The Works! programmes.[25]

Figure 5.5: Improvements in soft skills measured by Steps to Success



Source: Ashurst analysis of Tomorrow's People data

5.23 The results show that both the WIO and The Works! programmes have had a clear and positive impact on the soft skills of participants. Overall, 89 per cent of participants felt more confident and over 85 per cent of participants reported improvements in problem solving, talking and listening skills. Participants on The Works! programme showed higher than average improvements in soft skills, particularly talking and listening skills.

[25] Soft skills data is not available for the I2W programme.

5.24 As mentioned above, we have undertaken our SROI evaluation on the basis of the hard outcomes only, but have reported the improvements in the soft skills of programme participants. It is widely recognised that soft skills outcomes are relevant to the evaluation because they often represent intermediate stages on the way to achieving hard outcomes. However, given the extensive assumptions that would be required, we have not been able to adjust the SROI assessment to reflect the improvements in soft skills in this evaluation. The evidence above does, however, clearly show that for many participants the benefits of the TP programmes extend far beyond the hard outcomes.

5.25 Whilst in some respects, improvements in softs skills may already be partly reflected in our estimates of the hard outcomes (e.g. through an increased probability of entering employment or the wage premium earned by TP participants), the improvement in soft skills for participants that do not enter the work force represent an important benefit that we have not quantified in this evaluation. For example, a programme that improves personal and interpersonal skills is likely to improve the likelihood of employment, even if employment has not been obtained in the near term. An improvement in softer skills may also lead to a range of other "spillover" benefits, such as an improvement in financial literacy, or the participant being a more active and informed consumer, which are also relevant factors to consider. This provides a further reason why this evaluation may be regarded as conservative, and we would recommend that the quantification of the benefits of soft skills is a point considered further in any future evaluations.

6. DATA IMPROVEMENTS FOR FUTURE EVALUATIONS

6.1 As mentioned above, the methodology used in this evaluation relies heavily on a number of simplifying assumptions. Whilst we have tried to replace untested assumptions with hard data wherever possible, there are a number of data improvements which we think could be made by TP for future evaluations. These include the following:

(a) **Data on the background of programme participants**. Whilst we have assumed that course participants are some of the hardest to reach in society, which is line with TP's mission statement, it would be useful to have further details on the background of course participants including: age, income, qualifications on leaving school, whether they have had any previous employment, convictions, general conditions of health etc. As mentioned above, we have sought to compare a factual with a counterfactual scenario in this evaluation, and many of these factors would assist in developing a more robust counterfactual scenario against which the benefits could be assessed.

(b) **Data on hard outcomes.** Whilst TP collects data which records the number of programme participants that were successful in gaining employment, moving into further education or training, or were actively seeking work following a TP programme, we don't know much about the nature of those outcomes. For example,

(i) for those people that were successful in getting a job, it would be to useful to know what that job entailed, the weekly income from that employment, and the number of hours per week worked. This would allow us to test, and possibly replace, various assumptions in our methodology (e.g. the wage rate, the premium of the wage rate relative to the national minimum wage, and the number of hours worked per week);

(ii) for those people that moved into further education or training, it would be useful to know what that training/education entailed, whether any part-time work was carried out alongside it, and how long it then took before they got a full-time job. This may involve collecting data over a longer period than the one year TP currently tracks participants; and

(iii) for those people that were actively seeking work, it would be useful to know how many were successful in gaining employment, and how long it took before they got a job. As mentioned above, our evaluation assumes that a proportion of these people are successful in gaining employment, which could then be tested against actual data of successes.

(c) **Data on soft skills.** As mentioned above, TP has started to measure the soft skills outcomes through Steps to Success. However, much of the data collected appears to be relatively piecemeal and is not gathered across all programmes in a

consistent way (e.g. we did not receive data for the I2W programme). It is also important that the recording of soft skills data through interviewing programme participants avoids any potential positive response bias (e.g. people have a natural tendency to agree with a positive statement, or to acknowledge that they have improved as a result of a TP programme). To the extent that they have not already done so, it may be worth TP seeking some advice from survey specialists in order to improve the way of recording and monitoring soft skills data in a fair, consistent and unbiased way.

6.2 Finally, it would be worth TP also considering if there are ways of improving their data recording capability (e.g. through some automatic online survey processes, or using computer-assisted survey technology). This may help to assist with any internal resourcing constraints as well as avoid the time-consuming manual conversion of hard copy documents into an electronic format, which we understand was a factor involved in providing data for this evaluation.