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**Measuring the social impact of the Tomorrow's People
welfare to work and youth programmes between
2006/07 and 2010/11**

A report by FTI Consulting

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Final

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Foreword by Vicky Pryce, Senior Managing Director of FTI Consulting, Inc.

We are pleased to present this report measuring the effectiveness of investment in Tomorrow's People and the wider economic impact of getting the long-term and socially disadvantaged back to work.

This report forms part of the work of our Economic Consulting practice, which works with leading companies and organisations, such as Tomorrow's People, on a wide range of issues from corporate strategy to public policy.

Tomorrow's People helps the hardest-to-reach and social disadvantaged members of society get back into work and stay in work. In this project, we have been able to demonstrate the positive social impact of both their Welfare to Work and Working It Out programmes.

Our methodology in calculating the social impact of Tomorrow's People has been conservative, but this report demonstrates the need for consistent reporting and methodology in calculating social impacts across both the welfare-to-work and third sectors.

We believe more attention will have to be devoted to these issues in the future as policymakers consider how best to introduce outcome-based contracts in the third sector. This will allow limited funds to be channelled to the areas in which they are best suited.

We are thankful to both Tomorrow's People and Pro Bono Economics for enabling this collaboration. We look forward to a renewed debate on how best the social impact of organisations in this sector should be measured.

June 2011

Vicky Pryce

Introduction by Andy Haldane, Founding Trustee of Pro Bono Economics

On behalf of Pro Bono Economics, I am delighted to introduce this report by FTI Consulting on the work of Tomorrow's People. This report forms part of our mission to help charities measure the results and impact of the work they do.

PBE was founded in 2009 and aims to encourage economists to work pro bono in the charity sector. There is more pressure than ever on charities to quantify their contribution to society, to ensure their resources are allocated efficiently and to demonstrate their value for money. Economists can put their skills to use to address these issues and, as we have been delighted to discover, there are hundreds of economists who are willing to do so by volunteering their time and expertise.

By connecting volunteer economists and charities we hope that not only will individual charities benefit, but the sector will become more aware of the value of economic analysis. In turn, we hope economists will become more aware of the work of charities and that a strong culture of pro bono work will develop in the profession.

Tomorrow's People does important work to help those furthest from the labour market back into employment. We are pleased that, through collaboration with FTI Consulting, we could assist Tomorrow's People in demonstrating the effectiveness of the work it does and, through this report, contribute to a conversation about how players in the welfare-to work sector, and the third sector more broadly, can measure and demonstrate their impact.

Pro Bono Economics would like express thanks to FTI Consulting for seeing the value in our work and supporting PBE as a corporate partner. We are grateful to the authors of this report, Pratik Dattani and Simon Trussler, for the fantastic work they have done. Our thanks also to Abi Levitt and the team at Tomorrow's People for their commitment throughout the project and their contribution to its success.

June 2011

Andy Haldane

 PRO BONO ECONOMICS

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Glossary

Item	Description
ASHE	Annual Survey of Hours and Earnings
BAME	Black, Asian and Minority Ethnic
BCR	Benefit Cost Ratio
CLG	Department for Communities and Local Government
CPI	Consumer Price Index
CRESR	Centre for Regional Economic and Social Research
DWP	Department for Work and Pensions
FND	Flexible New Deal
FTI	FTI Consulting, Inc.
GLW	Getting London Working
GSW	Getting Sefton Working
JCP	Job Centre Plus
JSA	Job Seeker's Allowance
LDA	London Development Agency
LEA	Local Education Authority
NDC	New Deal for Communities
NDYP	New Deal for Young People
NEET	Not in Employment, Education or Training
NEF	New Economics Foundation
PBE	Pro Bono Economics
OEF	Oxford Economic Forecasting
OECD	Organisation for Economic Cooperation and Development
ONS	Office for National Statistics
OSCR	Office of the Scottish Charity Regulator
RPI	Retail Price Index
SRB	Single Regeneration Budget

Item	Description
SROI	Social Return on Investment
SRTP	Social Rate of Time Preference
W2W	Welfare to Work
WIO	Working It Out



1 Executive Summary

The role of Tomorrow's People in British society

- 1.1 Tomorrow's People is a specialist charitable trust that helps people out of long-term unemployment, welfare dependence or homelessness, into jobs and self-sufficiency.
- 1.2 The Tomorrow's People mission is to support the most vulnerable demographics 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 charity helps them gain the skills, behaviours and qualifications that employers need so that they can get a job, and keep it in the long-term.¹
- 1.3 The Trust has its origins in inner city unrest in the 1980s. The Board of Grand Metropolitan Plc – which subsequently merged with Guinness to become Diageo – set up a charitable trust in 1984 that later became Tomorrow's People as a result of concern about these social and economic problems. Tomorrow's People Trust Limited was incorporated in January 2004 and is governed by a Memorandum and Articles of Association as amended by special resolution dated 18 June 2009. It was entered onto the Commission's Register of Charities on 22 March 2004 and the Office of the Scottish Charities Regulator on 26 August 2009.² Tomorrow's People has operated as an independent charity since early 2005.
- 1.4 Since it was founded in 1984, Tomorrow's People has helped over 440,000 people with their journey back to work. In 2009/10 alone, Tomorrow's People assisted 8,700 people.³ In 2009/10, it employed 175 staff and spent £6.8m on charitable activities.⁴

¹ Page 2, Tomorrow's People (2010a).

² Charity Commission, Register of Charities; Scottish Charity Register, Office of the Scottish Charity Regulator (OSCR).

³ Page 5, Tomorrow's People (2010b).

⁴ Page 2, Tomorrow's People (2010b).



- 1.5 Tomorrow's People is independently run but has had the support of a number of leading businesses and organisations. More than 80% of the charity's funding comes from local and national government contracts with most of the rest from donations, half of which are corporate donations.
- 1.6 Tomorrow's People's activities are across a variety of different programmes:⁵
- Nearly two-thirds of the Trust's expenditure has gone into Welfare to Work (W2W) schemes, which are Government contracts for which Tomorrow's People competitively bids against others in the sector. These are aimed at motivating, upskilling and building confidence for the hardest to reach people not currently in employment. The programmes provide their clients with training and support and often work directly with an employer to facilitate a smooth transition into the role.
 - Another 13% of the Trust's expenditure has been on its Working It Out (WIO) programme, funded entirely by donations. WIO works with disadvantaged young people, supporting them into jobs or training or further education. The programme, which has been running since 2003, was developed in response to the relatively high proportion of young people who are Not in Employment, Education or Training (NEETs) in the UK, a situation which has worsened considerably since the 2008/09 recession.⁶
 - The rest of the Tomorrow's People current expenditure is shared between outreach, research, fundraising, management and other activities.⁷
- 1.7 The Trust's projects are focused on disadvantaged areas in several London boroughs, the south and south west of England and also in Merseyside, Newcastle and Scotland.

⁵ For the purposes of this report, a "programme" is made up of a number of "schemes", which are based in different locations and for different cohorts of clients.

⁶ Page 3, Tomorrow's People (2010c).

⁷ Outreach activities involve working in libraries, community centres, doctors' surgeries, places of worship and schools, as well as in job centres. Research and innovation activities involve the development of new delivery models which help people from disadvantaged and excluded communities find sustainable employment.

Figure 1.1 Map of Tomorrow's People scheme locations (2006/07 to 2010/11)



Source: FTI analysis; Tomorrow's People

Scope of the FTI analysis

- 1.8 Tomorrow's People, in conjunction with Pro Bono Economics, asked FTI Consulting, Inc (FTI) to undertake an independent social return on investment (SROI) analysis of its work over the last 5 years. SROI is a measure that captures the value of economic and social benefits of Tomorrow's People by turning its social objectives into financial measures. SROI is also known as a benefit-cost ratio, or BCR. The main findings from the study are set out in this Executive Summary.



- 1.9 Our analysis builds on previous work done by Tank and Oxford Economic Forecasting (OEF).⁸ To keep our findings comparable to these previous studies conducted for Tomorrow's People, we attempt, where possible, to ensure our assumptions and calculations are consistent with previous approaches and explain the impact of any differences, where they occur.
- 1.10 Furthermore, our analysis only focuses on "hard" outcomes achieved by Tomorrow's People. We exclude positive quality of life effects of employment, which are subjective and difficult to calculate. We also exclude from consideration those W2W schemes where Tomorrow's People is not required to achieve a job outcome, but instead provides "softer" outcomes such as mentoring and guidance, the direct benefits of which are also difficult to quantify.

Key findings

- 1.11 FTI's analysis shows for every £1 invested by Tomorrow's People over the period 2006/07 to 2010/11, the value to British society is approximately £2.40.
- 1.12 This benefit is made up of two parts. For its W2W programme, this SROI is approximately £1 : £2.30. For its WIO programme aimed at young people, the SROI is higher at nearly £1 : £2.90.
- 1.13 In the 5 years our report covers, Tomorrow's People helped nearly 6,200 people attain full-time employment, further education or training. We estimate the *net* additional value of this to the British economy, after accounting for additionality factors, is £79.8m. This is comprised of:
- £10.8m in additional tax revenues to the British economy;
 - £56.4m in benefits savings for the British taxpayer, particularly Job Seeker's Allowance (JSA), Incapacity Benefit and Housing Benefit;
 - £0.9m of potential reduced public expenditure on health; and

⁸ Oxford Economic Forecasting, which subsequently changed its name to Oxford Economics. We use OEF as an abbreviation for consistency throughout the report. The studies referenced here are "Twenty-year evaluation of Tomorrow's People Trust Limited," 16 September 2004, by OEF and "Tomorrow's People: Evaluation of the Working It Out Programme," July 2010, by Tank.

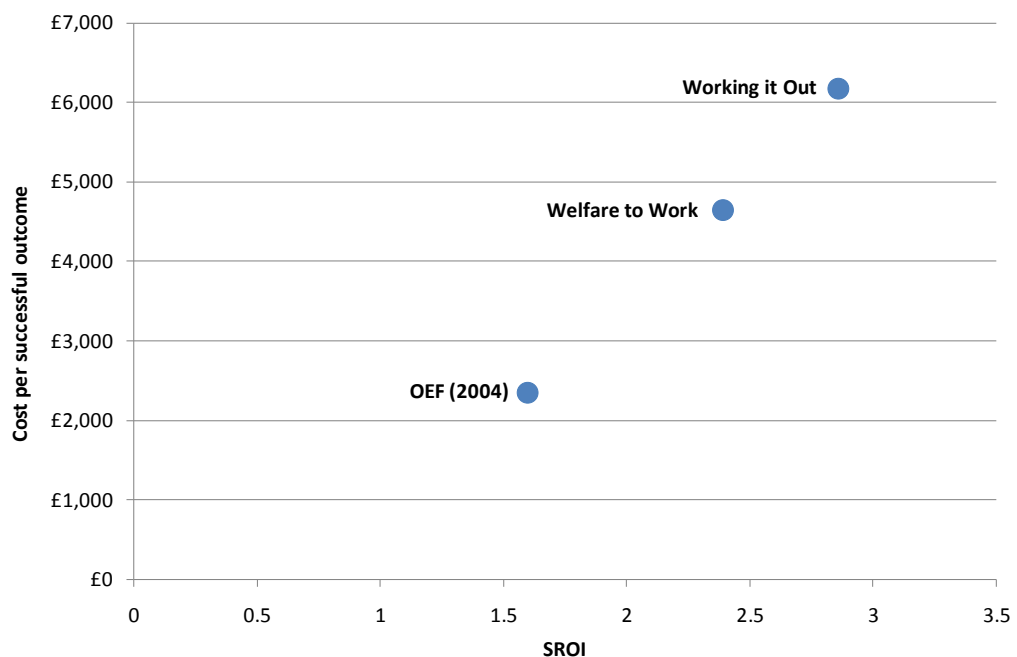


- £11.8m of potential reduced police, legal and prison costs.

1.14 Tomorrow's People produces these benefits at a gross cost per successful outcome (i.e. an individual in a job) of £4,600 for W2W and £5,600 for WIO (for which a successful outcome is defined as either a job or further education/training). WIO is more expensive on this basis than W2W because clients are typically harder-to-reach individuals. Although the gross cost is higher for WIO, the corresponding benefits are also higher, as shown in Figure 1.2.

1.15 On average, 35% of clients that complete Tomorrow's People schemes achieve job outcomes. After 3 months, 83% of these 35% of clients are still in a job, decreasing to 78% after 6 months and 71% in 12 months.

Figure 1.2 Tomorrow's People SROI for Welfare to Work and Working It Out



Source: FTI analysis; OEF (2004)

1.16 Figure 1.2 shows that although the cost per successful outcome, in comparison to the previous OEF (2004) study, is higher for both W2W and WIO, the related benefits are also significantly higher.

1.17 As a comparison, the Flexible New Deal (FND) gross cost per job has been estimated at around £2,300 and for New Deal for Young People (NDYP),



this figure is £2,850-£4,000.⁹ However, all these figures are sensitive to sustainment and deadweight adjustments, which could push the costs as high as £37,000.¹⁰ As we do not make adjustments for these two factors, our gross cost estimates for Tomorrow's People compare favourably to these figures.¹¹

- 1.18 FTI also notes the challenges ahead for Tomorrow's People and the sector in which it operates. Since the last evaluation report by OEF (2004), the British economy has suffered a deep recession, hitting the London boroughs in which Tomorrow's People operates particularly hard. Tomorrow's People programmes often perform better than the New Deal, which we use as a comparison to Tomorrow's People because it is a flagship Government welfare-to-work programme, on performance and sustainability metrics. However, the economy faces the challenge of another generation of economically inactive and long-term unemployed workers, particularly young people, who may be more difficult to get into, and keep in, work.

Content of this report

- 1.19 In **Section 2**, we define the scope and methodology of this report. We provide a background on the previous economic impact study done by OEF and lay out our methodology. Each subsequent section expands on an individual component of this methodology.
- 1.20 In **Section 3**, we summarise our main findings and recommendations.
- 1.21 **Section 4** discusses Tomorrow's People investments in each programme and provides gross cost per job figures.
- 1.22 The reduction in unemployment as a result of investment in Tomorrow's People programmes and underlying assumptions are outlined in **Section 5**.
- 1.23 **Section 6** discusses the direct economic impacts of increased tax receipts.

⁹ Slide 18, "Flexible New Deal performance expectations and funding," Andrew Thomas, Jobseekers Division, DWP (2008a).

¹⁰ Paragraphs 18-19, Select Committee on Education and Employment (2001).

¹¹ Further discussion is provided in Appendix 1.



- 1.24 We outline the direct economic impacts of reduced benefit payments in **Section 7**.
- 1.25 **Section 8** outlines the indirect social effects of the Tomorrow's People programmes on health and crime.
- 1.26 In **Section 9**, we explain our additionality and discount rate assumptions.
- 1.27 The Appendices discuss characteristics of Tomorrow's People clients and scheme areas, provide sensitivities on the key assumptions that make up the FTI figures and contain the sources of information used.

Acknowledgements

- 1.28 The current report builds on an earlier analysis by OEF in 2004, entitled "Twenty-year evaluation of Tomorrow's People Trust Limited." We have, as far as was possible, tried to use a similar approach and similar assumptions in the current analysis. It is inevitable, in such calculations, that some subjective assumptions must be made. Staying close to the earlier OEF approach should ensure, as much as is possible, that both sets of results are comparable.
- 1.29 At various stages of our work, we corroborated our approach with Andrew Logan at OEF and checked our calculations with him to ensure consistency with the earlier work. FTI is extremely grateful for Andrew's help and advice, which has proved invaluable.
- 1.30 A large team from Tomorrow's People have provided data and insights throughout the course of our analysis. We would like to thank in particular: Brian Gibson, Shaun Gloc, David Hough, Abi Levitt, Theresa Pollard, Baroness Stedman-Scott, Nick Warran-Smith, Steve Swan and Jan Tomlinson.
- 1.31 Various economists in government and beyond provided helpful input. Andrew Newell of Sussex University provided a peer review of our model and of this report. We are particularly grateful for his time and comments.
- 1.32 Finally, we would like to thank Pro Bono Economics for introducing us to Tomorrow's People. FTI is delighted to have worked alongside Pro Bono



Economics and would urge other consulting firms to also support what we regard as a valuable and worthwhile initiative.

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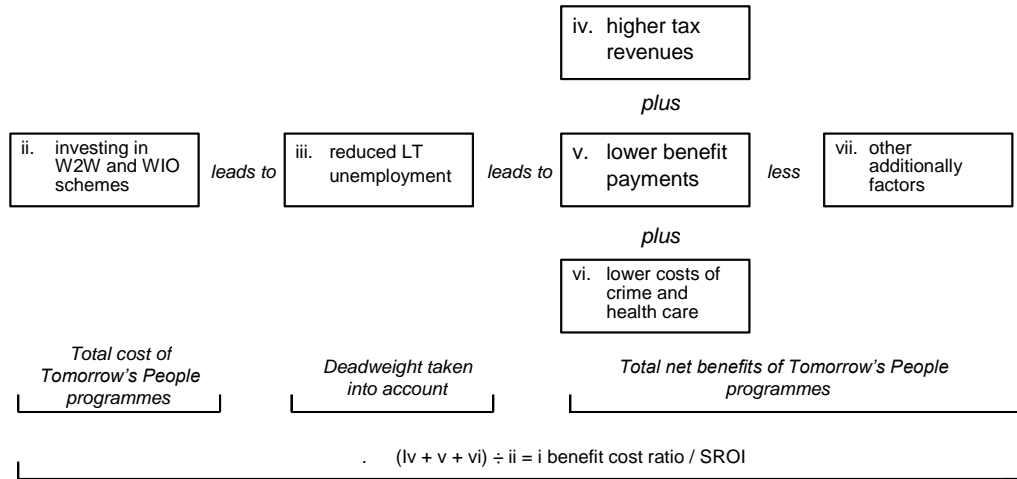
2 Methodology

- 2.1 The objective of this study was to undertake an social impact evaluation of the impact that Tomorrow's People Trust Ltd (Tomorrow's People) has had on the UK economy and society and to assess the return on the investment made by the Trust.
- 2.2 The study is an update to the "Twenty-year evaluation of Tomorrow's People Trust Limited" by OEF in 2004. It also builds on the two studies by Tank entitled "Getting London Working: Delivering jobs and opportunities to London's unemployed: Summary of an independent evaluation by Tank Consulting" (June 2006) and "Tomorrow's People: Evaluation of the Working It Out Programme" (July 2010).
- 2.3 Terms such as SROI and BCR are different ways of expressing the same thing. Net benefits are usually defined as the present value of benefits minus the present value of costs. In this report "net benefits" means net of additionality factors such as deadweight, displacement, substitution and multiplier effects – costs are not subtracted.
- 2.4 In preparing this report, we relied upon management information and report data from Tomorrow's People, annual reports, reports by other consultancies on Tomorrow's People's activities, the OEF (2004) evaluation report and publically available material.

Components of the analysis

- 2.5 Our analysis to calculate the SROI for Tomorrow's People activities looks at this only over a 5-year year period between 2006/07 and 2010/11. Our analysis calculates an SROI not only for both programmes together, but also separately for the two main classes of programme – W2W and WIO. W2W schemes are ones where Tomorrow's People privately bid for Government contracts, while WIO schemes are all privately funded via trusts, foundations corporate and individuals.
- 2.6 The following simple schematic illustrates the different components of our SROI calculation.

Figure 2.1 Overview of the FTI methodology



Source: FTI analysis

- 2.7 Each part of the methodology is covered in more detail in the sections that follow. Part (i) deals with the results of our analysis, which is to calculate the net benefits of Tomorrow's People's programmes. There are different ways this can be expressed, but it amounts to the same thing - a comparison of what is invested in Tomorrow's People schemes (i.e. what they cost) against what society as a whole gets out of them.¹²
- 2.8 Our starting point was to understand what Tomorrow's People has spent, what they spent it on and the purpose of those investments. This is captured in step (ii) in the methodology above.
- 2.9 The investment made by Tomorrow's People helps clients, whose prospects of getting a job would otherwise be slim, get into, and stay in, employment.
- 2.10 However, it would be wrong to attribute all jobs gained by Tomorrow's People clients to the success of the W2W and WIO. Some of these clients would have got jobs anyway, either on their own or through the assistance of a similar welfare-to-work programme run by another organisation.

¹² Strictly speaking, this study is analysing public sector investment versus benefits to society for W2W and investment through charitable donations versus benefits to society for WIO.



- 2.11 A key driver of any calculation of the benefits from Tomorrow's People programmes is, therefore, an estimate of the jobs gained over and above what would have happened in the absence of Tomorrow's People's intervention. The resulting "employment uplift" is reflected in step (iii) in the schematic above.
- 2.12 There are three direct consequences of higher employment:
- First, income tax revenues can be expected to be higher than they otherwise would have been. This is step (iv) of the methodology above.
 - Second, benefit payments will be lower. This is step (v).
 - Third, there may be further additional benefits since employed people tend to incur fewer and lower costs associated with crime and ill health. This is step (vi).
- 2.13 It is important when calculating the benefits attached to Tomorrow's People schemes, to also estimate ways in which its activities crowd out other economic activities. For example, if a Tomorrow's People client gets a job, this may prevent someone else from getting it i.e. no additional job has been created and the Tomorrow's People intervention has simply resulted in what is known as substitution. Such effects are considered in step (vii) of our calculations under the title of "other additionality factors." One of the determinants of additionality, deadweight, is taken into account earlier at step (iii), as explained further in Section 9.
- 2.14 The net result of each of the elements in these calculations allows us to estimate a SROI/BCR. In the rest of this report, we explain the main components to each element of our calculations.

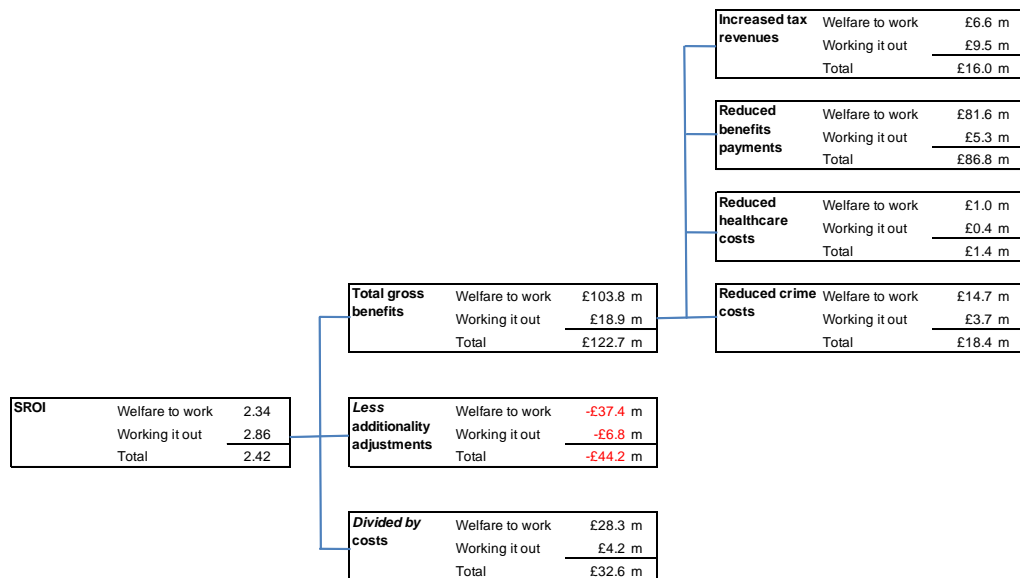


3 Output of the methodology (i) - main findings and recommendations

3.1 Figure 3.1 summarises the results of our analysis.

3.2 Over the period 2006/07 to 2010/11, we estimate that for every £1 spent by Tomorrow's People on the delivery of back-to-work employment support, the economy benefits by a total of £2.42. The SROI is higher for WIO programmes, at £2.86 in net benefits for every £1 spent, than it is for W2W programmes, where £2.34 is captured for each £1 invested.

Figure 3.1 Summary of FTI results



Source: FTI analysis

3.3 Nearly two-thirds of the Trust's total expenditure goes into W2W schemes. Of its expenditure on employment support in 2009/10, four-fifths was spent on W2W.¹³ Although WIO programmes are a smaller part of what Tomorrow's People does, our analysis does raise the question of whether the economy would benefit from resources being diverted from more traditional programmes like W2W-type initiatives and towards programmes

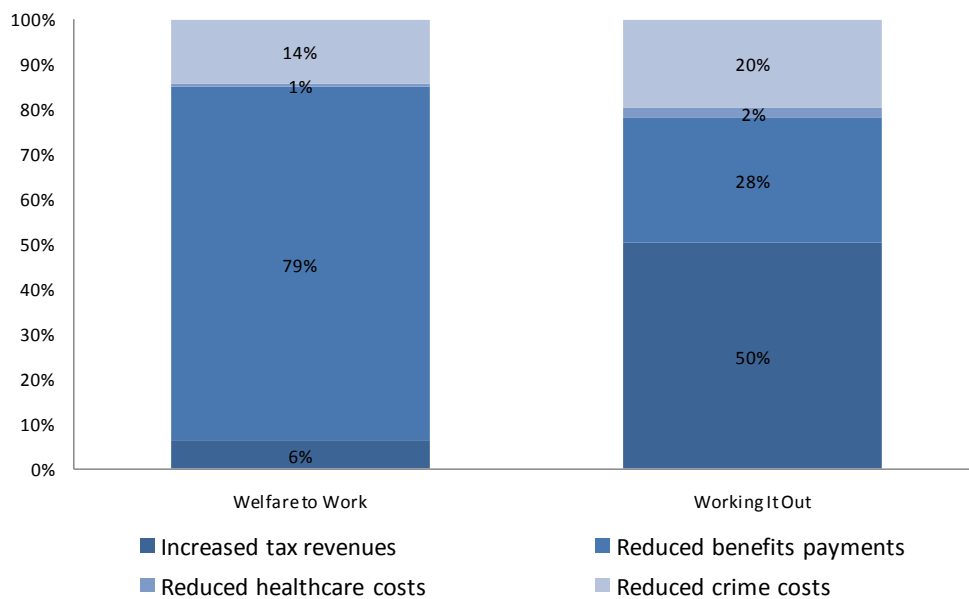
¹³ Tomorrow's People 2010a.



like WIO, which aim specifically to provide pre-employment support for NEETs. Despite costing more per individual, schemes within the WIO programme appear to achieve a better overall return on investment.

3.4 The sources of benefits achieved are from a mix of improvements that follow from Tomorrow's People getting people into work. FTI finds that the majority of total gross benefits accrue from reduced benefits payments. But, as shown in Figure 3.2 below, the mix is different for the two schemes. Whilst 71% of the total gross benefits from W2W programmes arise from lower benefits being paid, half of gross benefits for WIO, which is made up predominantly of 16-18 year olds, come from increased tax revenues.

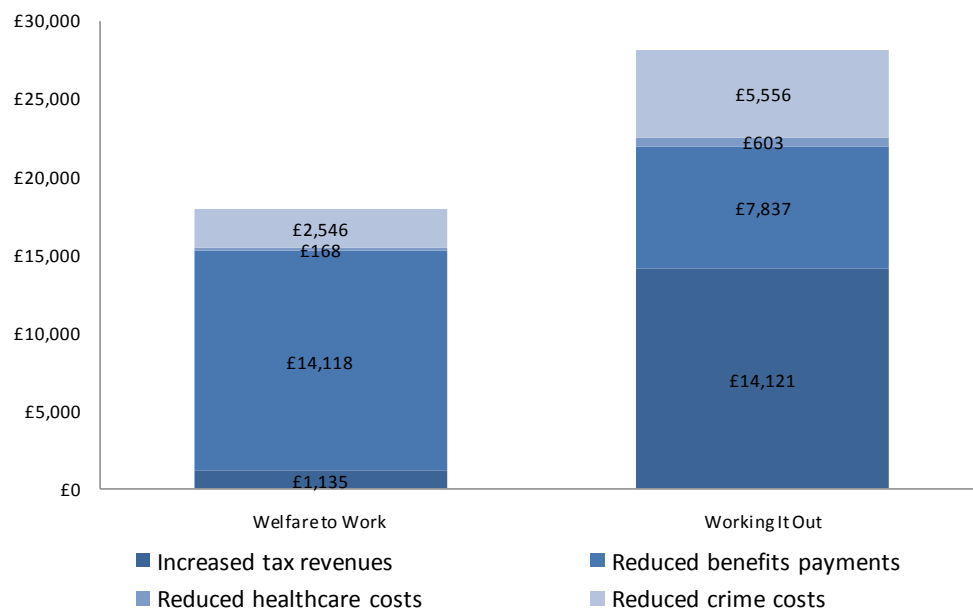
Figure 3.2 Breakdown of gross benefits for Welfare to Work and Working It Out



Source: FTI analysis

3.5 Figure 3.3 shows the benefits net of deadweight factors, in pounds per client that successfully completes a Tomorrow's People scheme. Again, calculations show larger benefit payment savings for W2W schemes, but larger tax contributions for WIO schemes.

Figure 3.3 Source of benefits: benefits net of additionality per client



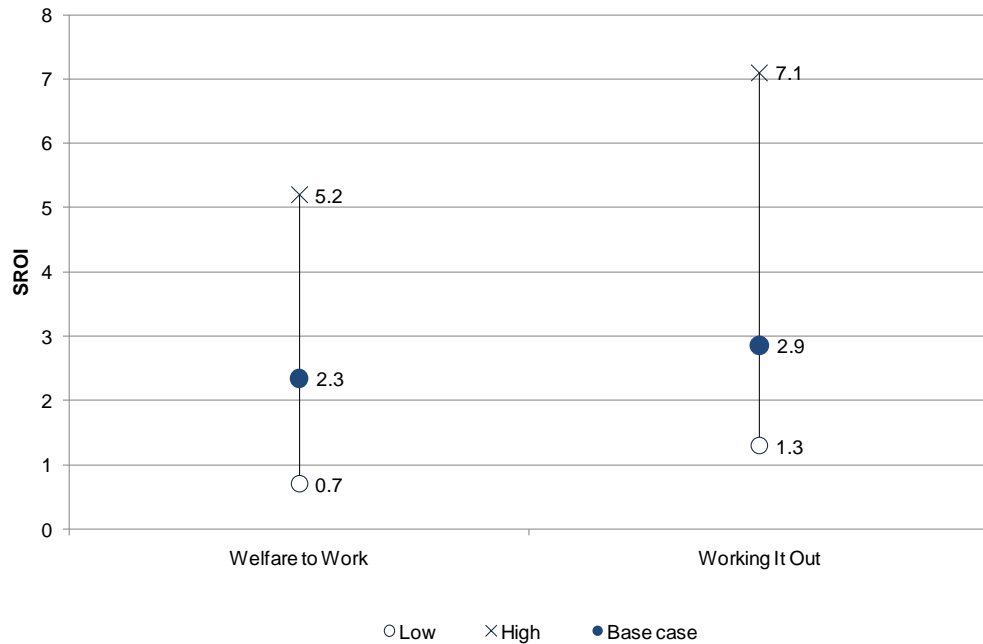
Source: FTI analysis

3.6 This is because W2W clients are older than WIO clients and therefore have a shorter working life ahead of them in which to pay tax. The preventative nature of WIO schemes addresses worklessness earlier in life than W2W. Most, if not all, W2W clients receive Housing Benefit and some are also Incapacity Benefit recipients, which makes the potential benefits payments saved from getting them into work greater than for the 16-24 year-old WIO client population, most of whom are 16-18 years old.

3.7 As we explain in the sections below, any calculation of the benefits arising from such programmes, and the resulting SROI, are necessarily subjective and rely on a raft of assumptions. We have, when making any assumptions, tried to take a conservative and reasonable approach and, where possible, used similar assumptions to those in the earlier OEF (2004) study. To sense-check our findings, we estimate the range of possible results we could have produced by calculating a "high" case SROI using all of the more

optimistic assumptions simultaneously as well as a “low” case SROI using all of the lowest possible assumptions. The range of results we could have produced are shown in Figure 3.4.

Figure 3.4 Range of SROI results and the FTI case base



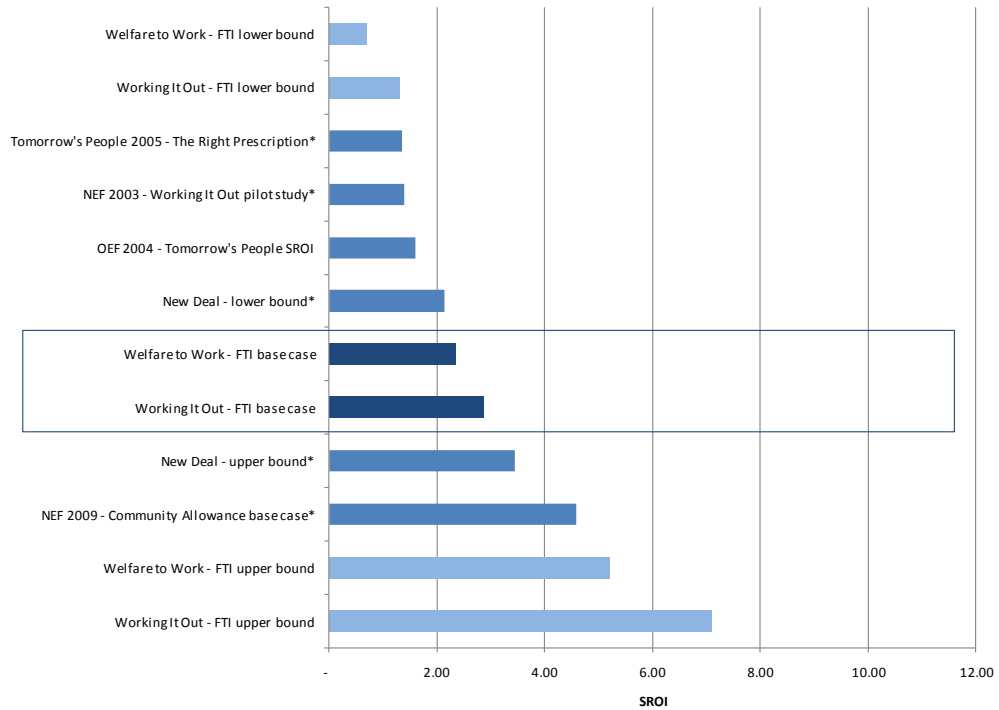
Source: FTI analysis

3.8 A description of how these ranges were produced is provided in Appendix 2. The range of possible outcomes shows that the FTI Base Case is closer to the low end of the possible range of estimates, and that the potential upside is higher for WIO than W2W.

3.9 Our modelling excludes benefits such as qualitative quality of life benefits. In that sense, the benefits from Tomorrow's People programmes may be larger than any of our quantitative estimates.

3.10 To further sense-check our findings, we compared our calculations of the SROI for Tomorrow's People W2W and WIO programmes against a series of other SROI benchmarks, both for Tomorrow's People and other initiatives. This is summarised in Figure 3.5. We note that the FTI range of outcomes from Figure 3.4 encompass all other results from the comparable schemes.

Figure 3.5 Comparison of FTI results with other welfare-to-work initiatives



Source: CLG (2010); FTI analysis; NEF (2003); NEF (2009); OEF (2004); * signifies 'FTI-adjusted' SROI, as discussed below

3.11 Our estimates of the current SROI are higher than OEF (2004) estimates, at 1.6. This is for several reasons that are expanded upon throughout the report, including:

- WIO as a programme was only at pilot stage when OEF carried out its analysis;
- the number of unemployed people helped by Tomorrow's People has gone up since 2004; and
- tax and benefit allowances have changed and we have performed a more detailed analysis of health and crime benefits.



3.12 However, our estimates are lower than the estimated SROI of some other similar schemes which, upon inspection, are not necessarily comparable, including:

- New Economics Foundation (NEF) study into the WIO pilot scheme (2003): The NEF is an independent think-tank that was commissioned by Tomorrow's People to conduct an independent evaluation of the pilot and assess its effectiveness, and social and financial return to the wider community. This study was based on a sample of just 15 clients in Tower Hamlets in London. Its assumptions on, for example, criminal justice costs saved are several times higher than FTI's. The pilot did not consider school premises costs or utility charges, which are no longer provided without charge as they were for the pilot. Among other differences, NEF uses a lower discount rate, uses a lower deadweight assumption and do not consider displacement and substitution factors. Assuming FTI assumptions instead for the additionality factors reduces the SROI from 3.0 to 1.4.
- NEF (2009) policy proposal work on a possible Department for Work and Pensions (DWP) Community Allowance: The think-tank was commissioned by the Hadley Trust to carry out an SROI analysis of the Community Allowance pilot in 2009. It was based on just a sample of 17 from one project in south-east London. The Allowance is a welfare-to-work imitative aimed at getting long-term unemployed back into work through training and support alongside safeguarded benefits for a year. NEF models quality of life effects such as improved life and job satisfaction, lower social isolation and other social, environmental and community factors which were out of scope for our study because of the inherent difficulties in estimating these. Removing the accrual of benefits to family and the wider community reduces the SROI by half, from 10.2 to 4.6.
- Department for Communities and Local Government (CLG) study into the New Deal for Communities (NDC; 2010a): This programme had better data which allowed it to use econometric and shadow pricing techniques to assess the effect of the programmes. As a result, the CLG work is better placed than FTI to estimate benefits accruing not just to the Exchequer, but to the wider community and the local environment.



CLG does not include the total expenditure on the NDC – only CLG expenditure, but not any local authority or matched funding is included, which would add £807m to total costs. This decreases the SROI range from 5.1 – 3.1 to 3.5 – 2.1.

- Tomorrow's People (2005) commissioned consultants to conduct this study on the SROI impact of the employment support service provided from the James Wigg Practice in London for the years 2001-2004. This study, entitled The Right Prescription, had a sample size of 61 individuals who registered for full employment support, while an additional 139 sought ad-hoc advice. The cost to serve each registered patient is not comparable to the cost used in our study because The Right Prescription used infrastructure available already available at the surgery, while additionality is assumed to be 100%. Detailed calculations for its SROI are not available, but the nature and location of the scheme may mean additionality is significantly higher than considered in FTI's analysis. As a benchmark, if the study's additionality assumptions were made consistent with FTI's, the SROI would decrease from 5.3 to 1.4.

3.13 These comparisons show, we believe, how FTI has taken a conservative approach in the assumptions used in our calculations.

3.14 As a result of a different mix of funding and scale of programmes, investments made by Tomorrow's People are not necessarily comparable to those made by prime contractors in the sector. Larger scale comparators such as these benefit from economies of scale and scope, at least in marketing and client support activities. As a result, drawing simple conclusions from, for example, our ranking of relative SROIs in the figure above may underestimate the true impact of Tomorrow's People.

3.15 For example between 1999-2000 and 2007-08, the 39 New Deal partnerships spent a total of £1.7bn on c.6,900 projects, with a further £730m invested from other public, private and voluntary sector sources, which is several hundred times more than Tomorrow's People.¹⁴ Data

¹⁴ Page 5, CLG (2010a).



availability for the New Deal value for money assessment was better than is generally the case in the welfare-to-work sector.¹⁵

- 3.16 At a scheme-specific level, several young people in Plymouth, for example, were referred by The Prince's Trust because Tomorrow's People had the relevant skills to help those clients. As described in more detail in Tank (2010), WIO as a programme has exceeded the Prince's Trust's progression outcomes.¹⁶ Similarly with other providers with which Tomorrow's People may subcontract, such as Seetec, clients that the main contractor cannot provide sufficiently intensive services for may be referred to Tomorrow's People.

Data recommendations

- 3.17 In order to calculate the returns on any commercial investment, and whether those returns were sufficient, detailed data typically is needed by firms and their investors in several areas:
- First, a full and accurate understanding is required of the financial outcomes that were captured as a consequence of that investment having been made relative to the funds invested.
 - Second, investors typically require a "hurdle rate" against which to compare the returns they have made. This might be a benchmark of the returns made by similar organisations from similar investments. Or firms often compare returns on investments against their cost of capital i.e. the interest rates that have to be paid to debt providers and dividends expected by equity owners of the organisation.¹⁷
- 3.18 In principle, the information collected and analysed by organisations in this sector should be similar. In practice, many contracts awarded to Tomorrow's People are small, short-term and from a wide range of funders, all of which have their own, different eligibility, contractual and reporting requirements. Others may be longstanding and extended contracts for which management

¹⁵ Table 5.5, page 67, CLG (2010b).

¹⁶ Pages 32-33, Tank (2010).

¹⁷ This is often captured in the company's weighted average cost of capital, or "WACC".



information requirements have been changed by the funder. Tomorrow's People operates within tight financial and contractual constraints and has therefore found this reporting challenging, especially when seeking to produce annual, charity-wide, cross-programme data for analysis.

- 3.19 The introduction of the Government's Work Programme in 2011 will introduce additional reporting requirements, but should improve data availability on how long successful job outcomes are sustained, as described further in Section 5. For example, it should enable a more standardised method of data collection across all contracts.
- 3.20 Our observation, having completed our analysis of Tomorrow's People's activities, is that there is scope for significant improvement in the information collected on outcomes and returns on investment. This is, we should emphasise, not just for Tomorrow's People, but, due to the circumstances outlined above, for the whole of the welfare-to-work third sector.
- 3.21 For example, Tomorrow's People collected information, at their own expense and above contractual requirements, on a telephone survey basis on the jobs their clients secured. Only a small sample of clients could be reached, and their activities were tracked for 12 months. Little information was collected on what job they secured, only rudimentary details were collated on the benefits people no longer pay, and clients were not asked about what they earn when in employment. More information on all of these factors, over a longer period, would help organisations like Tomorrow's People to produce a much more robust calculation of the benefits that result from their efforts. As it stands, we have had to extrapolate actual data and make assumptions where data are unavailable. It may be that better information would actually significantly increase the net benefits of Tomorrow's People, on an SROI measure, because we would not need to make as many conservative assumptions.¹⁸ For WIO clients, no information was available on the extent to which education and training courses clients may enrol on actually help them find employment.

¹⁸ Where data is unavailable, it may, at least partly, be because of DWP contractual restrictions regarding the dissemination of personal data on participants.



- 3.22 We should stress that it is our understanding that this is a feature of the whole of the welfare-to-work sector; in fact, we believe that Tomorrow's People has collated one of the better data sets on outcomes among its welfare-to-work and third sector peer groups.
- 3.23 Improved information on outcomes from Tomorrow's People's programmes would, however, improve matters to only a limited extent. Finding a positive SROI is, like observing a positive return on investment for a commercial organisation, a necessary but not sufficient condition to conclude that the organisation's activities have been worthwhile. It means little more than to say the charity or organisation in question has not lost money, or created a negative return.
- 3.24 The real question is whether the return on investment has been sufficiently high. A commercial firm will, as noted, compare its return on investment against what other similar firms achieve or against a cost of capital. In an ideal world, voluntary, public and private sector organisations in the welfare-to-work sector would do something similar.
- 3.25 This would mean that not only would it be possible for us to calculate the SROI more accurately for Tomorrow's People's activities, but also that all other organisations in the sector would do something similar. That would allow us to benchmark Tomorrow's People's SROI against other similar voluntary organisations and commercial competitors. Investors would be able to provide funds to charities that achieve the best returns and charities and other stakeholders would be able to compare returns against different approaches to running programmes and, in doing so, diagnose ways in which to improve performance.
- 3.26 Of course, it would be essential that the information collected was in a standardised form across all welfare-to-work sector organisations and the way returns were calculated was similar.
- 3.27 Furthermore, it would also be desirable, in our view, to agree on what a suitable measure of the "hurdle rate" would be in the third sector. Corporate finance theory is well versed in estimating costs of capital for commercial organisations; something similar would have to be adopted against which charities and their investors could compare SROIs.



- 3.28 As the Government increasingly aspires to pay organisations in this sector on the results they achieve, and the hard outcomes that result, more attention will have to be devoted to these issues in our opinion. And if financial instruments such as social impact bonds are to be adopted on a more widespread basis, collating the right information and measuring performance in the right way will be absolutely imperative.
- 3.29 That said, on the basis of the analysis we have undertaken and the data we have been provided, we find that Tomorrow's People is generating a positive return on the monies it receives and that, over time, its performance has continued to improve in the face of harsh economic conditions. We believe that further improvements to measurement, outlined above, will act only to sharpen the incentives for all third sector organisations to continue to improve and to channel funds to the areas in which they are best used.



4 Step (ii) - the investments Tomorrow's People has made in its Welfare to Work and Working It Out programmes

Introduction

4.1 In this section, we explain the information used in step (ii) of the SROI calculation methodology set out in Figure 2.1, relating to the money invested into Tomorrow's People W2W and WIO programmes. We do so in the following steps:

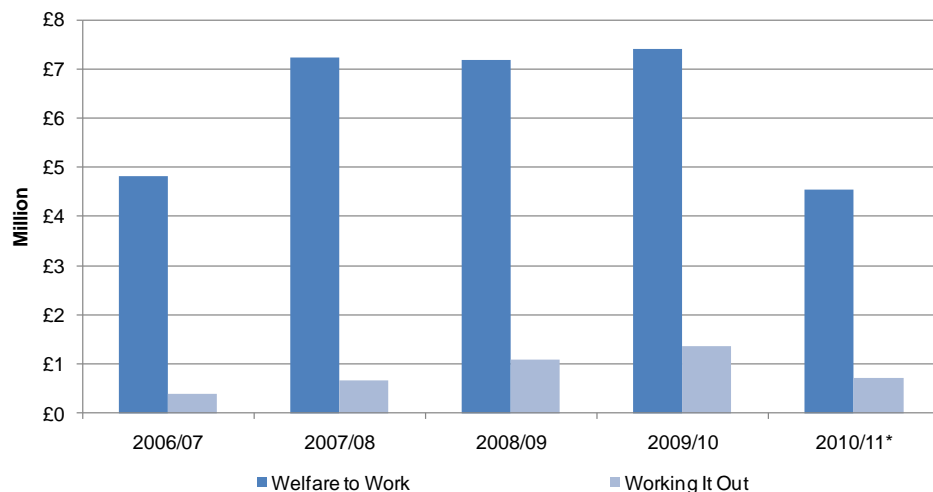
- first, we outline the investments Tomorrow's People has made; and
- second, we describe the purpose of the programmes i.e. what the investments are intended to achieve.

The investments Tomorrow's people has made

Total investments

4.2 Figure 4.1 shows the total annual investments made by Tomorrow's People in each year covered by our analysis, expressed in constant 2010 prices.

Figure 4.1 Welfare to Work and Working It Out expenditure (2005/06 to 2010/11)



Source: Tomorrow's People; * To end-September 2010;

4.3 More than 80% of the Tomorrow's People employment support activities are made up of W2W schemes. Charities competitively bid for Government contracts that make up these schemes. They are aimed at matching



motivated and skilled people who are currently not in employment to employers and jobs. In 2009/10, £7m was spent on government contracts supporting adults getting into work.

- 4.4 The rest of the charitable expenditure goes into helping young people into employment through the WIO programme. Getting to disadvantaged young people before they enter a cycle of unemployment in their adult life means that the expenditures on the WIO programme, on a per outcome basis, are higher than for W2W. Not only do Tomorrow's People programmes provide clients with training and support, they often work directly with employers to ensure a smooth transition into a role.
- 4.5 We looked only at the period 2006/07 to 2010/11 in our study, which is an update of the OEF (2004) work that covered the period 1998/99 to 2003/04. WIO was in a pilot stage at the time of the OEF report and only commenced in 2004.¹⁹

Gross costs per job

- 4.6 Gross cost per job shows the level of income for Tomorrow's People divided by the overall number of people placed into a job. The gross cost per successful outcome is the cost per person that achieves a successful employment, further education or training outcome and is relevant only for WIO, for which data on all three outcomes is readily available. Figure 4.2 outlines these results.

¹⁹ See NEF (2003) for an evaluation of the WIO pilot scheme.

Figure 4.2 Gross cost at current prices by outcome (2006/07 to 2010/11)

	Per successful outcome ²⁰	Per person
Welfare to Work	£4,600	£2,000
Working It Out	£5,600	£3,500

Source: FTI analysis; Tomorrow's People

- 4.7 On a gross cost per successful outcome basis, WIO is more expensive than W2W. Gross cost per successful outcome for W2W is £4,600 and for WIO is £5,600. This is because WIO clients are typically harder-to-reach individuals and therefore the assistance provided is both higher, and for a longer duration. However, the corresponding benefits for WIO are also higher.
- 4.8 As a comparison, the Tank (2010) study, which was based on the 6-year period from 2004/05 to 2009/10, estimated the gross cost per person for WIO as £3,444 and the gross cost per successful outcome as £5,487. Over the period 1998/99 to 2003/04, OEF (2004) calculated gross cost per job created by Tomorrow's People as £2,050.
- 4.9 The FTI figures are not directly comparable to the Tank and OEF figures because of differences in time periods and discounting considered, as well as the nature of the schemes that were part of the OEF study. The WIO programme started in 2004 and therefore was not considered as part of the OEF study. In addition, cost per successful outcome has increased because Tomorrow's People are focussing more on harder-to-reach people than was the case in 2005.
- 4.10 Additionally, although other Government programmes may look cheaper than Tomorrow's People, their cost per job figures are based on more aggressive deadweight and sustainability factors. For example, the New Deal cost per job is reported as £1,800-3,000 for young people and £2,850-

²⁰ WIO includes successful job, further education or training outcomes.. W2W includes only successful job outcomes.



4,000 for the age group 25+. The FND cost per job is £2,320 and for Pathways this figure is £2,000.²¹

4.11 By varying the underlying deadweight and sustainability assumptions, these costs can appear significantly more expensive than Tomorrow's People figures. Appendix 1 discusses these further. As a result, the Tomorrow's People cost figures cannot be considered in like-for-like terms with these programmes.

4.12 Tomorrow's People costs are comprised of several categories shown in Figure 4.3.

Figure 4.3 Tomorrow's People cost types

Cost type	Description
Full Income and Expenditure	The programme is of a type where Tomorrow's People carries the risk of making a surplus or deficit because the income is performance-dependent. Its fees may be related to, for example, the number of client starts, client jobs or other outcomes, or the amount of time it spends supporting the client ("on programme weeks"). To mitigate risk to Tomorrow's People, this is sometimes combined with a fixed management fee. This is the largest cost type, making up more than 70% of expenditure on programmes.
Defrayed expenditure	With these programmes, Tomorrow's People gets paid what it spends, up to an agreed maximum. Provided that it manages its costs properly, it should not normally make a deficit on such programmes. Some funders place limits on the maximum permitted costs for shared facilities which can be claimed back. There may well be performance targets on such programmes as well as penalties associated with poor performance.
Working It Out	WIO programmes are funded in two ways: voluntary and part-matches Government funding. With the former, the programme works as a defrayed expenditure contract. With donations, if Tomorrow's People raises sufficient money to cover the expenditure, it will also work as a defrayed expenditure type.
Costs for shared facilities	These costs are for shared facilities such as premises or operations management staff and are allocated appropriately to the related programmes. We are looking at the cost of provision of the programme from a funding point of view. Therefore this study only considers the above three cost types (which are "income" for Tomorrow's People), and not these wider costs.

Source: *Tomorrow's People*

²¹ Slide 18, DWP (2008a).



- 4.13 If Tomorrow's People makes an overall surplus after head/back office costs, it is carried forward in reserves for use in future years' activities.
- 4.14 Our W2W gross cost per successful outcome does not include costs for schemes where job outcome is not a goal and therefore the benefits derived from successful outcomes are harder to quantify. For example, where a prime contractor such as Seetec believes that a client is unlikely to achieve a job without additional mentoring support, they are referred to Tomorrow's People. Tomorrow's People receives an intervention fee for that mentoring support, but not for any subsequent jobs that may be achieved. Another example of fees received for providing support services is Future Jobs Fund (FJF),²² where the role of Tomorrow's People is to support clients throughout their temporary FJF job, such that when it concludes, the clients are better able to obtain a permanent job.

Purpose of Tomorrow's People investments

- 4.15 Tomorrow's People programmes provide their clients with training and support and often work directly with an employer to ensure a smooth transition into the role. The charity provides tailored one-to-one return to work programmes and where possible, even where the contract does not require it, continues to support those who achieve a successful job outcome to ensure the success lasts longer.
- 4.16 Tomorrow's People project locations are in disadvantaged areas of several London boroughs, the south of England and also in Merseyside, Newcastle and Scotland.
- 4.17 The majority of W2W clients are the result of referrals from agencies and community-based organisations, word-of-mouth advertising from, for example, past Tomorrow's People clients and more frequently from prime contractors and Job Centre Plus (JCP) as this increasingly becomes a contractual requirement. Less than 10% of W2W clients are as a result of the charity's own marketing.

²² The FJF was announced in 2009 by the DWP as a scheme aimed mainly at 18–24 year olds who have been out of work for six months and are claiming Jobseeker's Allowance. According to the DWP, the existing bids will have funded over 100,000 jobs by the end of March 2011.



- 4.18 Similarly, the majority of clients enrol onto WIO schemes as a result of peer referrals or referrals from key organisations that work with young people such as JCP, Youth Services and Exclusion units of Local Education Authorities (LEAs), councils, schools, Connexions/Skills Development Scotland, probation groups, Youth Health and Advice Centres, Citizens' Advice Bureaux and local youth programmes such as those run by Barnardos. Although the weightings vary by area, peer and school referrals are the fastest growing sources of enrolment.
- 4.19 Tomorrow's People delivered 89 W2W schemes in the period 2006/07 to 2010/11 across the UK, many of which spanned across several years, including 45 that ran in the year 2010/11. W2W schemes are Government contracts which are structured such that the organisation that wins the contract is paid on the basis of management and outcome-dependent fees, including penalties for underperformance. Monitoring clients after scheme completion is increasingly required in many instances for Tomorrow's People to receive performance fees based on "sustained outcomes" at certain points in time.
- 4.20 WIO is a highly successful Tomorrow's People programme, funded by voluntary donations, which works with disadvantaged young people, supporting them into jobs or training or further education. The programme, which has been running since 2004, was developed in response to the high proportion of young people who are NEETs in the UK.²³ Each task force, or cohort, takes part in a 20-hour a week scheme for 16 weeks in which each client gets tailored help from key workers.
- 4.21 There were 91 WIO cohorts in the period 2006/07 to 2010/11 across the UK. London has the highest proportion of clients entering further education and training at scheme completion, while Glasgow has the highest proportion progressing into job outcomes. The clients are predominantly 16-18 year olds referred to the programme through a combination of self-referral, peer referral and through other organisations such as The Prince's Trust.

²³ Tomorrow's People (2010c).

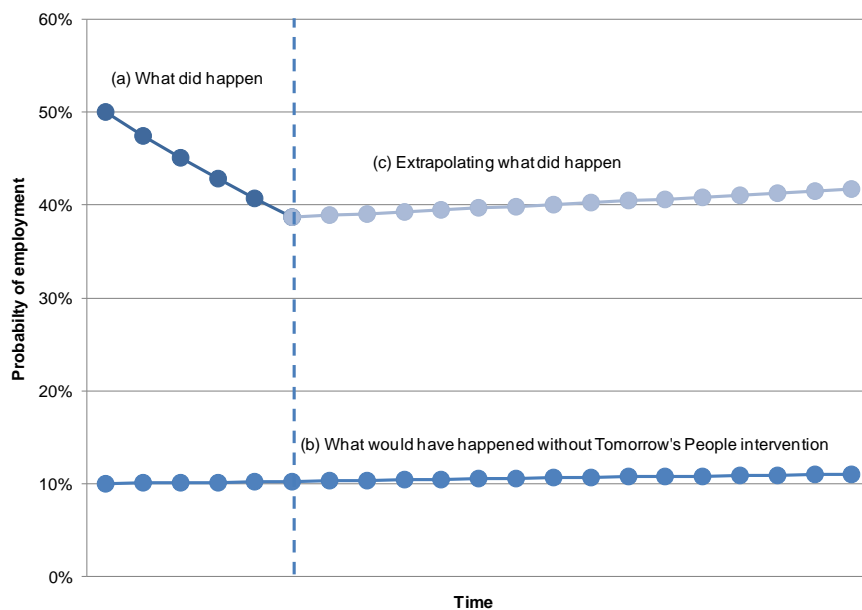
5 Step (iii) - estimating the reduction in unemployment that results from Tomorrow's People programmes

Introduction

5.1 In this section, we describe how we estimated the reduction in unemployment that results from Tomorrow's People schemes. This is a key stage of our calculations since all of the savings associated with Tomorrow's People schemes, including tax revenues, reduced benefit payments, and lower crime and health costs, are scaled by the estimated change in employment.

5.2 There are, as illustrated in Figure 5.1, three components to the reduction in unemployment that results from Tomorrow's People schemes

Figure 5.1 Illustration showing three components to estimating the reduction in unemployment that results from Tomorrow's People programmes



Source: FTI analysis

5.3 The key components to the employment uplift calculation are:

- a) a measure of what did happen following Tomorrow's People intervention in the form of the W2W and WIO schemes;



- b) an estimate of what would have happened in the absence of any intervention from Tomorrow's People; and
- c) an estimate of what is likely to happen to Tomorrow's People clients in future years.

5.4 In the rest of this section, we explain the data and assumptions we have made in relation to each of these three components of the calculation. We then show the results of our calculations on the reduction in unemployment that results from Tomorrow's People schemes. Finally, we explain why, because these results are calculated on the basis of data collated during time of recession, they may understate the impact of Tomorrow's People schemes in the longer term.

(a) a measure of what did happen following Tomorrow's People intervention for the Welfare to Work and Working It Out programmes

The Tomorrow's People telephone survey

5.5 In December 2010, Tomorrow's People conducted a telephone survey of over 1,461 clients, to follow up a similar exercise performed in April 2010. The survey focused on W2W schemes and asked clients with successful job outcomes in the period April 2001 – October 2010 their employment status at 13, 26 and 52 weeks after completing a Tomorrow's People scheme.

5.6 The survey asked clients a number of questions including:

- what organisation did you work in after completing the scheme?;
- what was your job title at the time?;
- if the job has changed, which organisation do you work for now, and what is your job title?; and
- what was your employment status at 13, 26 and 52 weeks after completing the scheme?

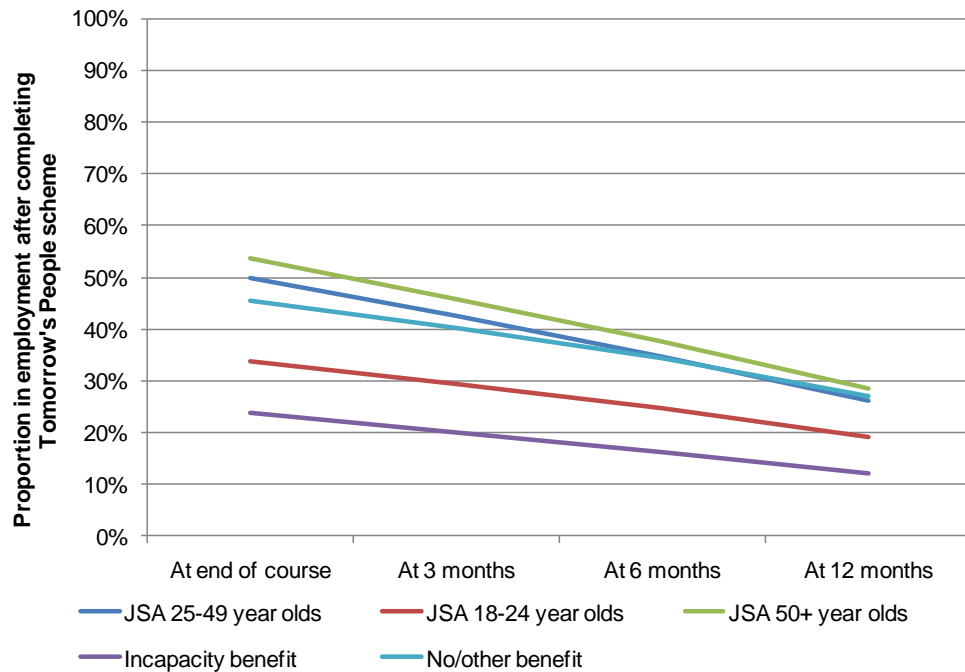
Results from the telephone survey

5.7 Figure 5.2 shows the results of the telephone survey for Welfare to Work clients.



- 5.8 It shows that, on average, 35% of clients that complete Tomorrow's People schemes achieve job outcomes. After 3 months, 83% of these 35% of clients are still in a job, decreasing to 78% after 6 months and 71% in 12 months.
- 5.9 These are average figures for all W2W schemes where a successful job is the target outcome, as discussed in Section 4.
- 5.10 The benefit classes which have the best job outcomes are 25+ year old people who receive JSA and those who do not receive either JSA or Incapacity Benefit. This is because they are likely to be the most attractive in the job market, whereas younger JSA claimants lack the necessary experience. People who receive Incapacity Benefit are also likely to lack the necessary experience and are the hardest to help because of poor health.

Figure 5.2 Proportion of clients in employment after completing a Tomorrow's People scheme – Welfare to Work (2008/09 to 2010/11)



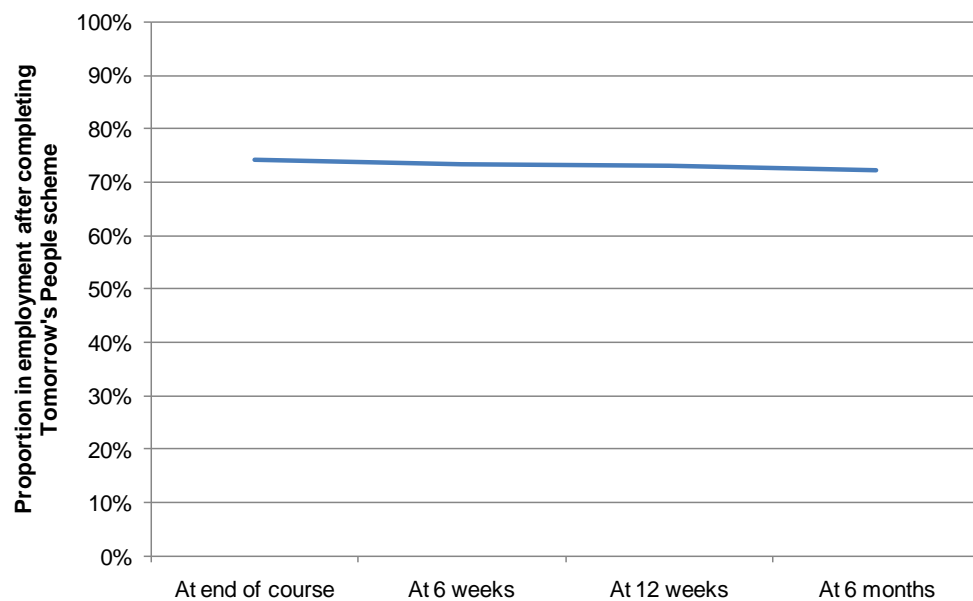
Source: FTI analysis; Tomorrow's People

- 5.11 Figure 5.3 shows the results for the proportion of clients in employment, further education or training for WIO. These figures are derived from Tank



(2010) and show that 74% of clients that completed a WIO scheme were able to achieve a successful outcome. Tank used Tomorrow's People tracking data for 8 quarters across the years 2007/08 to 2009/10 but explained that it was unable to obtain information for a young person's status at 12 months.²⁴

Figure 5.3 Proportion of clients in employment, further education or training after completing a Tomorrow's People scheme – Working It Out (2008/09 to 2010/11)



Source: FTI analysis; Tank (2010)

5.12 We assume that the proportion of successful WIO clients still in employment, further education or training at different points in time after completing a Tomorrow's People scheme (the "sustainability" of the successful outcome) will be around 70% after 12 months. While this is based on anecdotal evidence from Tomorrow's People, this is a reasonable assumption as many of the further education and training courses that young people join are 9-18 months in duration. This could be an overly positive assumption, but even if

²⁴ Page 30, Tank (2010).



we assumed a drop-off in this employment rate of 5%, the final SROI for WIO decreases by only 0.1.

5.13 Some clients go straight from a WIO scheme into work. Others go into further education or training first, say for a year, and achieve employment later. The employment likelihoods of both these groups after 12 months may be different. However, since we do not have tracking data available to help us determine the difference, we need to make an assumption about their future employment likelihood. We assume that people go straight from further education into employment, although we have little hard evidence with which to confirm this assumption.

5.14 Comparisons of the sustainability rate with other programmes such as the New Deal are difficult. Published DWP evaluations for employment programmes tend to look at additional job years as the main outcome, which is not straightforward to convert into the proportion of job outcomes that are additional.

Possible sampling bias

5.15 We used the output from the 2010 telephone survey exercise to determine our sustainability rates discussed above. The 1,461 participants of the survey were selected if they took part in a scheme where a job was the target outcome and if they then went on to achieve the job. Of these, Tomorrow's People successfully contacted 38%, or 547, of the clients.²⁵

5.16 The results of the survey were as follows:

- of the 452 clients who could have been in employment for 13 weeks at the time the survey was conducted, 375 were still working (which equates to an 83% sustainability rate);
- of the 245 who could have been employed for 26 weeks at the time the survey was conducted, 192 were still working (78%); and

²⁵ The Tomorrow's People survey team recorded notes on each of the client responses as part of the telephone survey. The main reasons for clients not contacted are given as "number out of use" or "phone switched off/answer phone."



- of the 81 clients from the sample who could have been in employment for 52 weeks at the time the survey was conducted, 58 were still working (72%).
- 5.17 As there was no contractual requirement for Tomorrow's People to carry out such an exercise and provide in-work support to clients, it believes this response rate is reasonable.
- 5.18 We assumed the sustainability rates calculated on the basis of this limited sample could be applied to the population. In doing so, we assume the population had the same characteristics as the portion of the sample that responded.
- 5.19 It could be that this is an optimistic assumption. However,, if a major reason for not being able to contact clients was because their situations had failed to improve, one might expect a larger proportion of uncontactable clients than was the case. On the other hand, it seems unrealistic to assume that more of the uncontactable clients had found employment than those who were contacted. Hence our assumption, on the grounds that there was no obvious sensible alternative. We would recommend, however, further research in this area be undertaken by Tomorrow's People, and others in the welfare-to-work sector, to further refine its understanding of the success attached to such programmes.
- 5.20 We also note that our estimated proportion of clients finding employment is lower than in the OEF (2004) analysis. OEF explained that historically around half of all clients achieved successful job outcomes, but that this figure fell over time as Tomorrow's People began to concentrate on the hardest-to-reach clients.²⁶ The trend of focusing on the hardest-to-reach has continued and as a result, the success rate has fallen to around 28% on average across the benefit classes shown in Figure 5.2.
- 5.21 One improvement in our modelling approach from the OEF (2004) work is that we are able to determine sustainability rates on a more granular level,

²⁶ Pages 11-12, OEF (2004).



by benefit class, whereas OEF applied one average sustainability rate across all Tomorrow's People client groups.

Comments on differences in apparent success rates across Welfare to Work and Working it Out programmes

- 5.22 There is a significant difference in the proportion of clients in employment after 6 months across the W2W and WIO programmes. This is due partly to the fact that WIO schemes, unbound by Government contractual targets and aimed at predominantly teenagers, are better at generating successful outcomes.
- 5.23 In addition, the WIO figures are not directly comparable to W2W because a successful outcome for WIO is regarded as not just a job, but entry into further education or a training scheme.
- 5.24 If we remove the proportion of successful outcomes that relate to further education or training, to make the WIO and W2W figures directly comparable, the proportion of clients that are in employment is 30% at the end of a course, decreasing slightly to 29% after 6 months. These sustainability rates are similar to W2W, but can be viewed as more successful because the WIO clients are harder-to-reach.
- 5.25 Tomorrow's People attribute this success to the different approach of adults and teenagers to job opportunities. Young people do not have the same "mental baggage" as adults in relation to past negative experiences with the job market, such as unsuccessful job applications, redundancy or a lack of skills. As a result, once young people get an opportunity, Tomorrow's People found them to display a higher degree of commitment, shown by the low attrition rates in Figure 5.3.²⁷

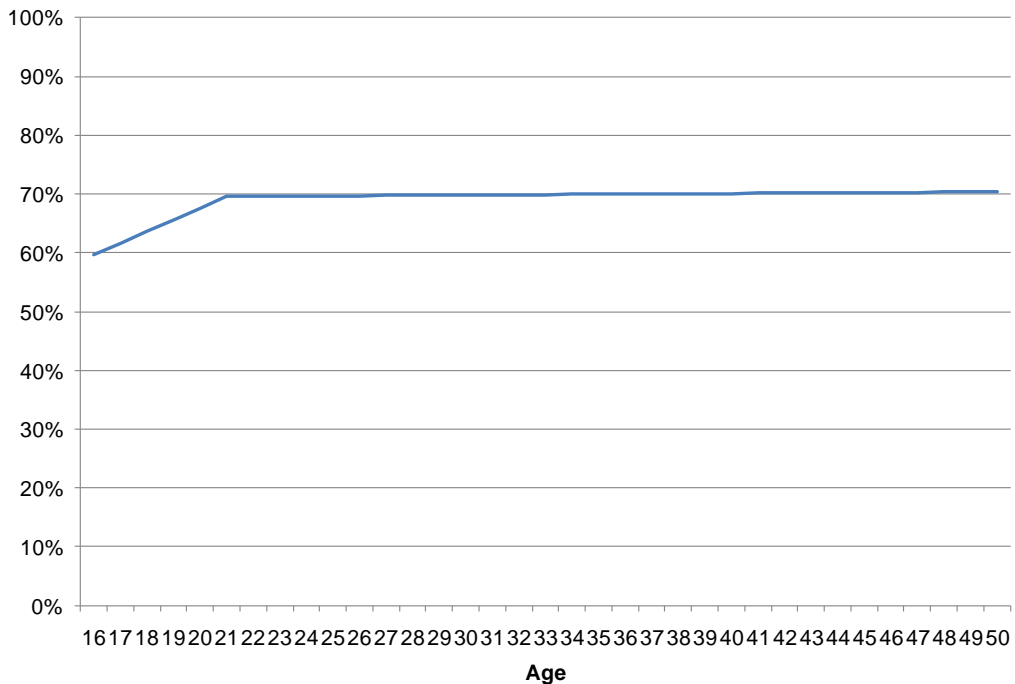
²⁷ From conversations with Tomorrow's People, this seems to be because clients are able to achieve tailored outcomes with key workers, who often come from a similar disadvantaged background, and are therefore able to build up a high level of trust and confidence with the client.



(b) an estimate of what would have happened in the absence of any intervention from Tomorrow's People

- 5.26 Figure 5.4 shows the average rate of employment in the UK for individuals by age. The data is derived from average monthly unemployment figures for the period 2005-10 that the ONS provides by age group. For the 16-24 year old age group statistics shown in the figure, employment is low at a young age, and increases gradually to the adult employment level.
- 5.27 The increase in employment rate is rapid between the ages of 16 and 21 as a result of the implicit assumption that the benefits of taking part in a Tomorrow's People programme will be felt most acutely, relative to the status quo, for younger people, after which we assume the employment rate will tend towards to the long-term UK average over the course of their adult life.

Figure 5.4 Average rate of employment in the UK for individuals by age, for a cohort of 16 year-olds



Source: FTI analysis; ONS

- 5.28 Figure 5.4 is an average. For any age group there will be a distribution around these averages. Young people who went to the best schools and universities are likely, for any age group, to have employment levels that are



higher than the UK average. People from disadvantaged areas, by contrast, will have higher unemployment levels than the average.

5.29 We know that Tomorrow's People clients will, by definition, have higher unemployment rates than the UK average for each age group – that is precisely why charities like Tomorrow's People work to help them.

5.30 Consequently, we need to determine exactly how much higher Tomorrow's People client unemployment rates are likely to be than the national average, for each age category, in the event that they received no help. This will act as the “counter-factual” against which we will be able to compare actual Tomorrow's People performance. This is because some clients will have got a job anyway, without a Tomorrow's People intervention, and we need to calculate the net change in employment.

5.31 We understand that Tomorrow's People run several schemes that are aimed at helping ex-offenders. The Prince's Trust (2007) quotes the Government's Social Exclusion Unit that the unemployment rate for young offenders at the time of arrest is nearly two-thirds.²⁸ This is a factor of about 4 times the national unemployment rate (4 x 15% equals 60%). We assume that WIO clients instead have an initial unemployment rate, for any age group, that is 3 times the national unemployment rate since:

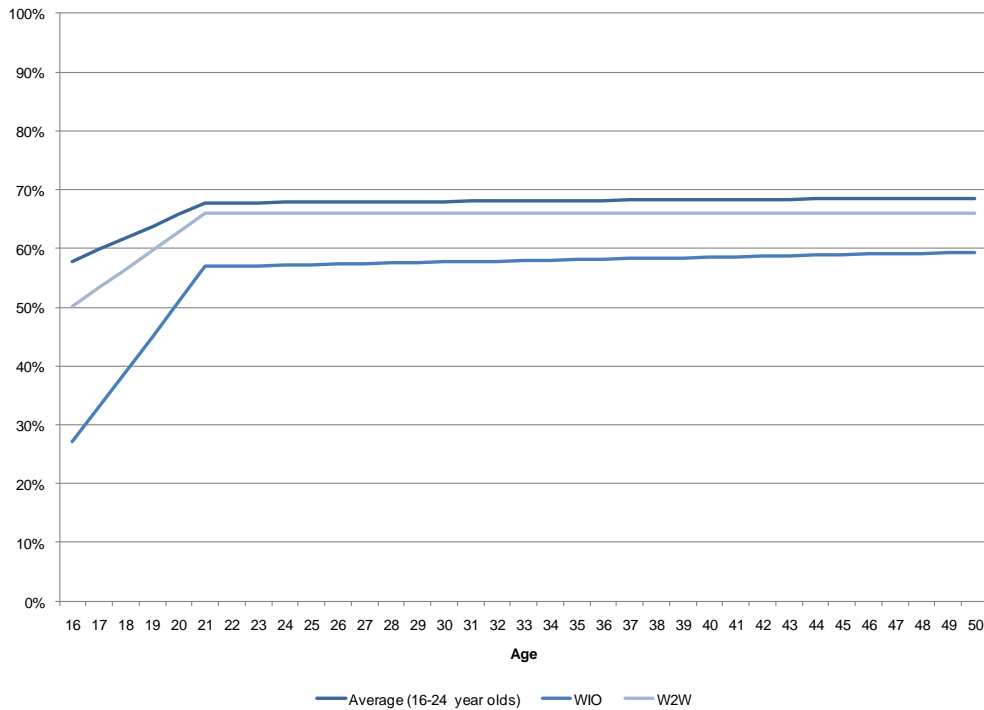
- not all WIO clients are ex-offenders; and
- we know WIO clients have higher prospects of unemployment than average but have little further evidence with which to establish a robust benchmark, beyond qualitative evidence provided by Tomorrow's people.

5.32 This is, in the absence of hard evidence, a speculative assumption. This is an area in which further research is clearly needed, not just for Tomorrow's People, but for the wider sector, to be able to conduct robust and evidence-based economic analyses in the future.

²⁸ Page 31, The Prince's Trust (2007).



- 5.33 Although this is a key assumption in our model, it is unclear how OEF (2004) calculated the employment uplift. Tank's two WIO studies were more qualitative and, therefore, not comparable.
- 5.34 Frontier (2010) calculates deadweight by multiplying the number of St. Giles' clients by the difference between their average reoffending rate and the national average reoffending rate. This is analogous to our method for calculating an employment uplift.
- 5.35 W2W clients will be, on average, more likely to have work experience and therefore are less likely to be unemployed than WIO clients. Therefore we assume, for any age group, W2W clients have an initial unemployment rate that is 1.5 times higher than that of the national average shown in Figure 5.4. Again, this is an assumption based only on a qualitative understanding of the W2W client based, gained from discussions with Tomorrow's people.
- 5.36 The result is shown in Figure 5.5.

Figure 5.5 Average rate of employment in the UK for individuals by age²⁹


Source: ONS

- 5.37 The rates of employment used in Figure 5.5 are directly comparable to the Lechner *et al* (2004) study discussed in DWP (2008b), which contains a literature review of results from training programmes and welfare-to-work schemes. Lechner *et al* (2004) showed that clients receiving retraining were 10-15 percentage points more likely to be employed than the control group 7 years after starting the programme. Those receiving other training were 5-9 percentage points more likely to be employed.³⁰ These figures compare favourably to ours in Figure 5.5 above.
- 5.38 Another survey by Bradley (2004) found that upon completing a NDYP scheme, 25% of leavers immediately turned to benefits; whereas the sustainability rate at 6 months (50%) was lower than for both W2W and WIO. Bradley found sustainability rates after 4 years were 20%.

²⁹ Rate of employment is calculated as 1 – unemployment rate – economically inactive rate.

³⁰ Page 13, DWP (2008b).



- 5.39 In contrast to these studies, a meta-analysis by Greenberg *et al* (2004) showed that the sustainability of training programmes was 0% after 2 years, and that programmes that emphasised assistance in job search led participants to increase earnings by 3 times as much as training-orientated programmes. However, the authors did point out that the training in the welfare-to-work programmes they reviewed was modest and “no longer than a month or two when it did occur.”³¹

(c) an estimate of what is likely to happen to Tomorrow's People clients in future years

- 5.40 We know, from Tomorrow's People management information, the age group of each client. We also know from Figure 5.4 that as a particular cohort of clients gets older, they are more likely to get a job. We assume that this trend also applies to the clients who secured employment as a result of the scheme but some of whom subsequently lost their jobs (as per Figures 5.2 and 5.3).
- 5.41 As a client gets into employment, it increases their future chances of securing a job, compared to someone without the employment experience.
- 5.42 We know the average rate of employment for WIO and W2W schemes as at 12 months. We assumed that the average rate of employment for people in these schemes who had been successful in getting a job but then some lost them would increase in line with Figure 5.4. This seems reasonable – Tomorrow's People helped them get into the workplace and showed that they had become employable, so it seems appropriate to assume that their prospects of getting another job were in line with the general rate of improvement of the UK population.

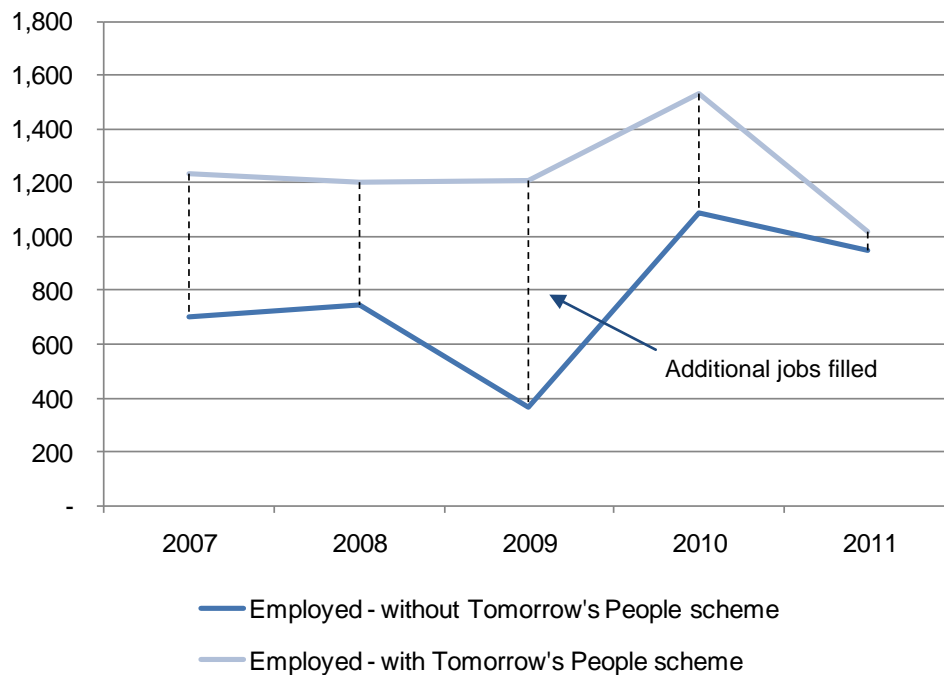
FTI's estimate of the reduction in unemployment that results from Tomorrow's People schemes

- 5.43 On the basis of the approach described above, we estimate Tomorrow's People programmes enabled 2,400 additional jobs to be filled in the UK economy, as shown in Figure 5.6, compared with what would have

³¹ Page 46, Greenberg et al. (2004).

happened in the economy anyway. This represents more c.40% of the people who achieved a successful job outcome through W2W or WIO.

Figure 5.6 Additional jobs filled by cohort (2006/07 to 2010/11)



Source: FTI; Tomorrow's People

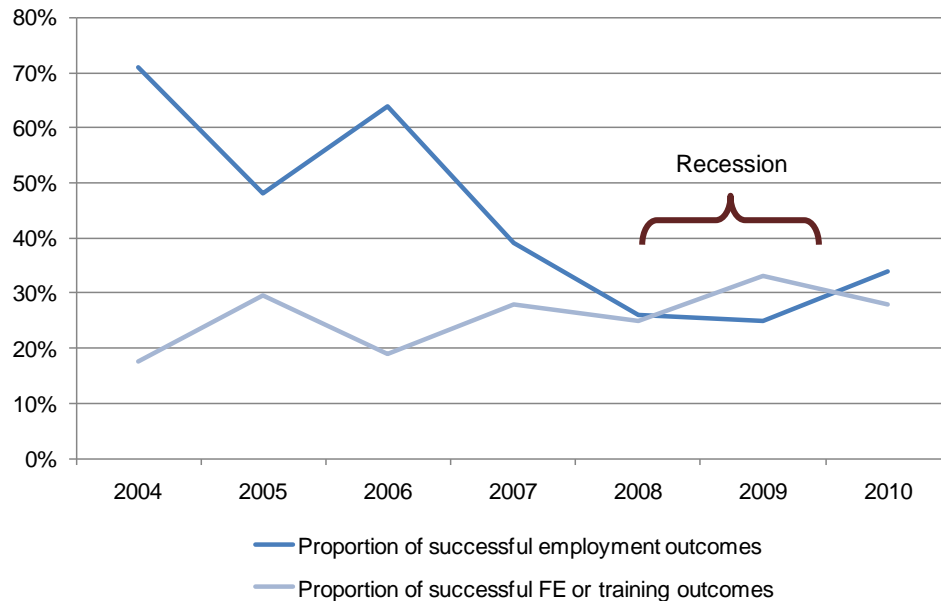
5.44 This is calculated after determining the duration of unemployment for each JCP benefit class, the probability of employment with and without completing a Tomorrow's People scheme and assessing the sustainability of the jobs created. For the Welfare to Work scheme, the short run estimates are based on the difference in duration of employment/unemployment over 5 years between Tomorrow's People clients and the ONS average by age. For the WIO scheme, looking at outcomes after 1 year, the estimates are based on different probabilities of employment/unemployment if someone is on the scheme, or not. The long run estimates are based on modelled probabilities of employment/unemployment over a lifetime, where the starting point for the counterfactual (as outlined above) is that W2W clients are 1.5 times more likely to be unemployed than the national average, and WIO are 3 times more likely to be unemployed than the national average. Our estimates above take into account the "quality" of the job created. For example, a client



previously on Incapacity Benefit achieving a job outcome of several months is weighted more heavily in calculating the net additional job created, than is a 16-year old client who has just recently started claiming JSA and only keeps the job for a few weeks.

Why FTI's estimate of the reduction in unemployment may be conservative – the impact of recession

- 5.45 The OEF (2004) study was conducted after a sustained period of jobs growth in the UK. WIO started operating amidst a growing economy and tight labour market. It may be that the economic downturn in 2008-2009 adversely affected the proportion of successful outcomes and sustainability rates.
- 5.46 The Tank (2010) report explains that over the lifetime of the WIO programme, progression to employment figures generally decreased (see figure below). The report does not discuss the extent to which the economic downturn in 2008-09 may be the reason for this change. For the purposes of our model, it makes no significant difference because further education and training are both assumed to also add to human capital and employment likelihoods in the same way as work experience.

Figure 5.7 Working It Out progression destinations as per Tank (2010)³²


Source: Tank (2010)

5.47 For W2W, it is not possible to discern the impact of the recession on job outcomes because the detailed management information data is only available for the period 30 September 2008 onwards split by outcome and JCP benefit class. However, one may reasonably expect that in a tight labour market in the mid-2000s, employment was easier to obtain than in a labour market with excess supply.

5.48 If the economic downturn has not just short-term, but deskilling and demotivating effects over a lifetime on young people, the counterfactual case in our model would be significantly worse. A study by Hammarström and Janlert (2002) showed that unemployment early in life of even more than 6 months can lead to health problems.³³ This means that without the advantage of Tomorrow's People guidance in a competitive labour market,

³² Adapted from Page 31, Tank (2010).

³³ Pages 626-7, Hammarström and Janlert (2002).



the chances of getting a job are slimmer. In which case, our SROI could be an underestimate.



6 Step (iv) - estimating the increased tax revenues that result from Tomorrow's People programmes

Introduction

6.1 One consequence of additional jobs is the potential for increased tax revenues to the Exchequer.

6.2 In this section, we use the uplift in employment calculated in Section 5, and determine the increased tax revenues that result. The general formula we use to calculate tax revenue per additional job is as follows:

$$\text{Tax revenue per additional job created} = \text{Wages per week} \times \text{Hours worked per week} \times \text{Tax rate} \times (52 \text{ weeks} \times \text{sustainability of job})$$

6.3 In the rest of this section, we provide a description of each of the assumptions we use in this calculation.

Wages earned by people who successfully gained employment following assistance from Tomorrow's People

6.4 From the Tomorrow's People December 2010 telephone survey, we had data on the job titles for each client with a successful job outcome. This is not something that is typically collated for a study of this nature. Although the data was rich in terms of the job title information available, Tomorrow's People did not ask clients what they earned. Future surveys, by either Tomorrow's People or other similar organisations in the welfare-to-work sector, may want to collate such data as it is required to calculate a SROI.

6.5 Consequently, we had to estimate what clients were likely to have earned. To do this, we used data from the ONS to estimate the average wage for a client with a successful outcome to compare to a counterfactual case, in which we assumed they would earn the minimum wage had they obtained a job without the help of Tomorrow's People.

6.6 The job titles upon completion of a scheme were available for all clients with successful outcomes from the Tomorrow's People phone survey. However, the response rate was low, at about 25%.



- 6.7 Our starting point for estimating wages was the Annual Survey of Hours and Earnings (ASHE), which is an annual survey conducted by the Office of National Statistics (ONS) that provides information about the levels, distribution and make-up of earnings and hours paid for employees within industries, occupations and regions.³⁴ The results of the survey are published as tables of hourly pay for all employees in the UK split by job type category.³⁵ It gives a breakdown of wages by decile of employees i.e. the average hourly wage for the lowest 10% earners in that category, up to the highest 10%.
- 6.8 We were able to match each respondent in the Tomorrow's People survey to one of the ASHE categories.
- 6.9 As the ASHE wage data is split by decile, there is a wide range of possible earnings. We assumed Tomorrow's People clients would earn a wage in line with the bottom 25% of each ASHE category. We had no firm evidence to support this; however, we felt it was a conservative assumption on the basis that Tomorrow's People candidates would, at least at the outset, be relatively inexperienced with a short track record in employment and, as such, would earn less than people with a lifetime career in each ASHE profession that may earn a median or higher wage. Over the 20-year period of this study, we assume this wage rate increases by historic wage inflation in the UK. If it were the case that Tomorrow's People candidates earned the median wage in each ASHE category, this would increase our results substantially - the W2W SROI would rise from 2.4 to 3.6 and the WIO SROI would rise from 2.9 to 4.5.
- 6.10 We used national wage figures throughout and did not consider a "London premium", which is based on the London "living wage" at £7.85³⁶ for the London clients on W2W and WIO. This is, again, to be conservative with our estimates, given the sensitivity of the final outcome to wage assumptions. If we adjusted for this London-specific component, the SROI for W2W

³⁴ ONS ASHE Results website, <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=13101&More=Y>.

³⁵ Datasets available at http://www.statistics.gov.uk/downloads/theme_labour/ashe-2010/2010-occupation.pdf and http://www.statistics.gov.uk/downloads/theme_labour/ashe-2010/2010-age.pdf.

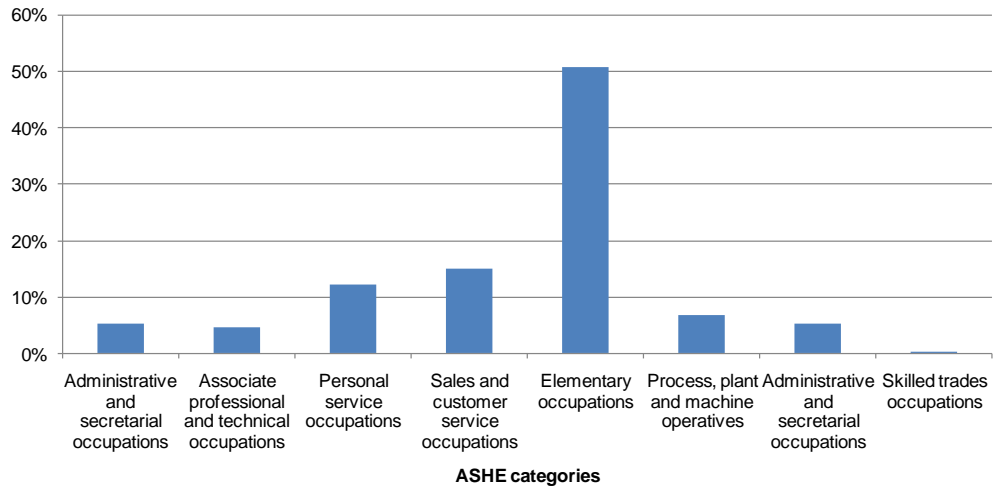
³⁶ Page 5, GLA Economics Living Wage Unit (2010).



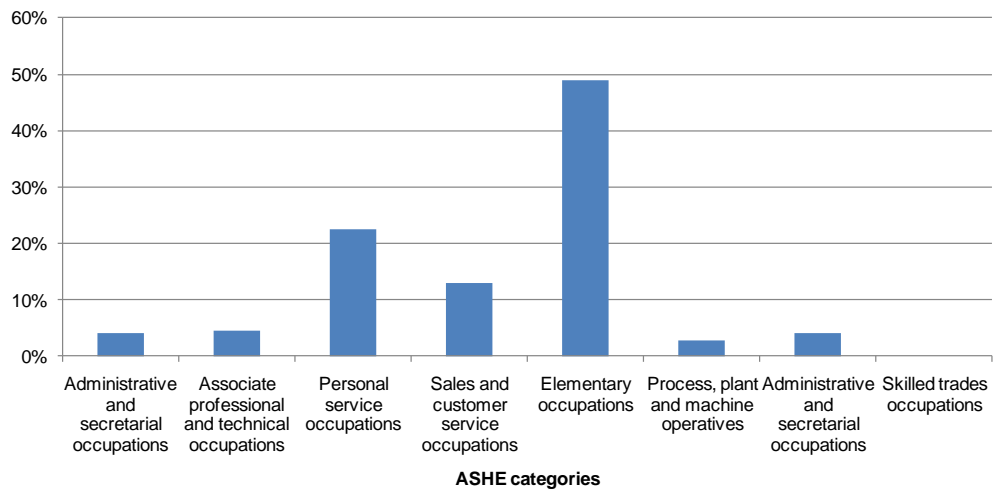
increases from 2.4 to 2.7 and for WIO from 2.9 to 3.3. The impact on WIO is marginally greater because the clients have a longer working life over which to take advantage of the consistently higher wages.

- 6.11 Figures 6.1 and 6.2 below show that the distribution of client jobs as per ASHE categories for London and other regions is similar, and heavily skewed towards elementary occupations such as elementary trade and plant occupations as well as administrative and service occupations. For both London and elsewhere, around half of all jobs were elementary occupations, whereas London had half the number of personal service occupations as elsewhere in the country.
- 6.12 Using ASHE gives an average wage of the respondents to the survey as £6.84, which is a 15% premium to the £5.93³⁷ minimum wage that we assume clients would otherwise earn.

³⁷ Adult rate (for workers aged 22+) as of 1 October 2010.

Figure 6.1 Distribution of client jobs by ASHE category – London


Source: FTI; ONS; Tomorrow's People

Figure 6.2 Distribution of client jobs by ASHE category – outside London


Source: FTI; ONS; Tomorrow's People



- 6.14 We assume different wages are earned by 16-24 and 25+ year olds, as per Government minimum wage bands.³⁸ For WIO in the counterfactual case, we use the 2011 minimum wage for young people at £4.92 compared to the adult rate of £5.93 for W2W. Therefore, the adult minimum wage is 18% higher than the young people minimum wage. Likewise, where we use the ASHE wage of £6.84 for those aged 25 and over, we reduce this figure by 18% to arrive at a wage rate for 16-24 year olds.

Hours worked by people who successfully gained employment following assistance from Tomorrow's People

- 6.15 Tomorrow's People can claim only full-time job outcomes on most of their W2W Government contracts, defined as at least 16 hours a week. Some schemes, for example In-2 Work, which supports young people who have been involved in gang violence and is run in partnership with the Metropolitan Police, are funded differently. For these, part-time jobs can also be claimed as successful outcomes. But as these schemes make up less than 1% of the total costs in the period 2006/07 to 2010/11, we assume all clients with a successful job outcome work 40 hours a week. WIO schemes are not Government funded and do not have the same restriction on funded outcomes as W2W. We have assumed the same number of hours worked for WIO for consistency. Although this may be an overestimate in the early years of the clients' working lives, the number of working hours for young people will tend to the adult assumptions.
- 6.16 For some smaller WIO schemes, the 40 hours a week scenario is likely to be correct even from the outset. For example, the Burberry Job Training scheme run in 2010/11 for a cost of just £32,000 has resulted in 7 out of the 15 participants taking up positions at Burberry, while 3 secured employment with other retail organisations and 1 entered training. Assuming all the jobs were additional, this scheme would break even as an investment for Tomorrow's People just on the basis of the increased tax revenue for the

³⁸ There are 3 different minimum wage rates: one for 16-17 year-olds, a development rate for 18-21 year olds and an adult rate for workers aged 22+. Because the client data we have available is split by JCP benefit classes, we apply the development rate to the 16-21 age group and the adult rate to the 25+ benefit class age group,



Exchequer, without even considering reduced benefits, health and crime expenditures.

- 6.17 Our calculations are less sensitive to changes in the hours worked assumption than to changes in the wage rate. This is because changes in hours worked are unlikely to affect tax paid if the current Government implements its current plans to significantly increase the personal allowance (which we assume, as explained above). The annual wages we assume are low and not much higher than the personal allowance threshold. As a result, we would not expect to see a significant change in tax revenues if the hours worked increased. However, if both wages and hours worked increased – for example if we assumed a London premium – then the resultant SROI would increase significantly.
- 6.18 Interviews with Tomorrow's People staff suggest that when a client gets a job, they are likely to be employed for the whole year. This is because gaining employment is such an important event in people's lives that if there is the possibility of having to leave a job, they will try to find a replacement straight away.

Future-proofing the assumptions

- 6.19 We assume in our analysis that tax is to be paid, in future years, as per current UK tax rates, with the personal allowance pro-rated by wage inflation.
- 6.20 The reason for this is we did not want to base our estimates on forecasts of what tax rates may be in the future. All of our estimates are therefore based on taxes as at February 2011. This is an area in which our analysis will differ from OEF (2004), which was completed at a time when tax rates and personal allowances were different. In particular, personal allowances were lower. As a result, OEF (2004) calculates additional tax receipts of £130m, whereas we estimate just £13.5m, after additionality has been removed (£21.0m before additionality is adjusted for). Although a large part of this difference is explained by a different numbers of clients considered, a



difference in methodology, where OEF considers both direct and indirect taxes, offset against additional in-work tax credits,³⁹ their estimates are likely to be higher on comparable terms also.

- 6.21 The Government announced plans in the March 2010 budget to increase personal allowances from £6,475 in 2010/11 to £7,475 in 2011/12 and eventually to £10,000. Increasing the personal allowance to £10,000 would reduce the SROI for W2W from 2.4 to 2.2 and WIO from 2.9 to 2.5. The reason for the larger change in WIO figure is because the clients are younger and therefore avail of the benefits of a lower personal allowance for a longer period.
- 6.22 However, any such change is likely not to affect the net benefits of Tomorrow's People but all organisations that operate in a similar welfare-to-work sector.

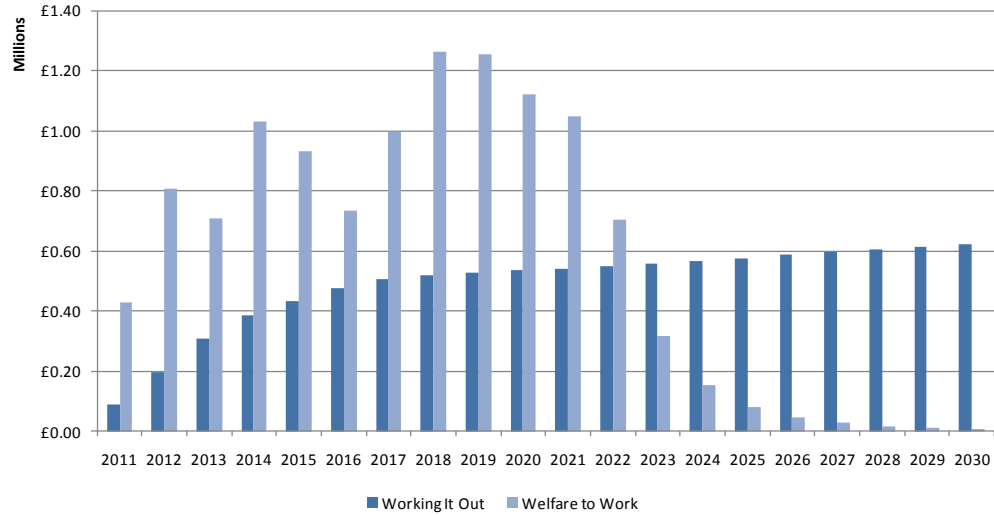
Estimated increase in tax receipts

- 6.23 The additional tax revenue raised for the Exchequer is £7.4m for W2W and £9.5m for WIO.
- 6.24 Figure 6.3 below shows the profile of these tax receipts. For WIO, as the young clients grow older, they contribute consistently more in tax revenue. The W2W client mix is made up of several cohorts of different ages therefore displays a different trend. There is a peak in tax receipts collected in 2019, but as successive cohorts retire, collections fall. Not only do older clients retire within a few years of completing a Tomorrow's People scheme, but some clients on Incapacity Benefit may slip back into claiming the benefit because they lack the necessarily skills to stay in employment for long periods. In addition, we assume that sustainability rates for W2W are poorer than for WIO, as discussed in Section 5, which leads to a sharper drop-off in employment.

³⁹ Page 2, OEF((2004).



Figure 6.3 Gross additional tax receipts collected over time for Welfare to Work and Working It Out (2011-2030)



Source: FTI

6.25 The calculation for additional tax revenues is broken down into the formula:

$$\text{Tax revenue per additional job created} = \text{Wages per week} \times \text{Hours worked per week} \times \text{Tax rate} \times (52 \text{ weeks} \times \text{sustainability of job})$$

6.26 This calculation would be different given the personal characteristics of each type of client, based on the (un)employment duration and probabilities of future (un)employment and benefit classes as discussed in Section 5 above. An indicative example would be as follows: for a client who is 25-49 years old, whose average unemployment duration before joining a Tomorrow's People scheme is approximately 1 year (as per the figure in Section 5 above), but who keeps a job for the same period of time, the total additional tax revenue for 2011 would be:



£6.84 ASHE 25th percentile wage x 40 hours worked per week x 20% tax rate above the personal allowance of £7,475 x 52 weeks

minus

£5.93 adult rate minimum wage x 40 hours worked per week x 20% tax rate above the personal allowance of £7,475 x 52 weeks

equals

£1,350 – £972 = £378

- 6.27 This reflects tax revenue for just 2011. The calculation is then repeated over the appraisal period of 20 years and discounted at the HM Treasury Green Book rate, as discussed further in Section 9.
- 6.28 The same conceptual framework applies to calculating the other components of net benefits, which are reduced benefits payments and health and crime benefits, which are all described in the subsequent sections.



7 Step (v) - estimating the reduced benefits payments that result from Tomorrow's People schemes

Introduction

- 7.1 An increase in employment as a result of Tomorrow's People's efforts can be expected to not only increase tax revenues, but also to generate savings for the Exchequer in the form of lower benefits payments.
- 7.2 In this section, we calculate what those savings are likely to be, on the basis of the net employment increases determined in Section 5. We do this by applying assumptions about the number of people that now claim fewer benefits, as well as the type of level of these benefits.
- 7.3 A substantial proportion of people who go through Tomorrow's People programmes previously claimed support from the state in the form of JSA, Housing Benefit, Incapacity Benefit and Income Support.
- 7.4 The formula we use to calculate reduced benefits paid per additional job is as follows:
- Reduced benefits payments per additional job created = Benefit payments claimed prior to Tomorrow's People programme – Benefit payments claimed post Tomorrow's People programme*
- 7.5 Benefits paid are unlikely to fall to zero even after a Tomorrow's People intervention because clients are still likely to be in relatively low-paid jobs and although they will no longer be eligible for benefits such as JSA and Incapacity Benefit, they may still claim Income Support and Housing Benefit.
- 7.6 Appendix 1 further describes the characteristics of W2W and WIO clients to enable us to understand what benefits assumptions can be applied to each client.



Benefits claimed by Tomorrow's People clients prior to their involvement in a scheme

7.7 Tomorrow's People management information reporting system records details of clients by programme, and for W2W provides information on what type of benefit they previously claimed, by the following JCP benefit classes:

- JSA claimants aged 16-24;
- JSA claimants aged 25-49;
- JSA claimants aged 50+;
- Incapacity Benefit claimants; and
- No/other benefit claimants.

7.8 It does not, however, provide the level of those benefits. The split by benefit classes is available from October 2008, so data are extrapolated to earlier years.

7.9 The previous OEF (2004) evaluation primarily considered JSA, Housing Benefit and council tax benefit, Working Tax Credit, Child Tax Credit and government administration costs as part of its "cost of unemployment per head" measure.⁴⁰

7.10 However, OEF (2004) made several simplifying assumptions which were required in modelling the complicated interaction between means-tested benefits and client outcomes. To avoid this, we have not considered items that are expected to contribute only a small amount to Exchequer costs, such as the government administration burden.⁴¹ We have included Housing Benefit, but made similar simplifying assumptions.

7.11 Most Government benefits are linked to the Retail Price Index (RPI) and we assume an RPI inflation rate of 3%, based on historic UK inflation, although

⁴⁰ Table A-1, page 54, OEF (2004).

⁴¹ There are several potential alternative benefits that could be considered if data was available, but the overall impact would be minimal. For example, in addition to Incapacity Benefit, some clients may have claimed Income Support for a disability, Severe Disablement Allowance or Employment and Support Allowance, or received childcare vouchers.



using a Bank of England Consumer Price Index (CPI) target rate of 2% instead makes a negligible impact on net benefits.

Job Seeker's Allowance assumptions

- 7.12 JSA is paid to people who are out of work but actively seeking employment. We use the maximum historical contribution-based JSA levels for the age groups 16-24 and 25+ as these are the groupings provided by the Government. We have not considered the different categories for income-based JSA for simplicity, because we do not have sufficient data on client incomes after scheme completion to be able to use this data.

Incapacity Benefit assumptions

- 7.13 Incapacity benefit is paid to people of working age who cannot work because of illness or disability. We assume the standard benefit rate for those under pension age, not adjusting for the incapacity age addition or child dependency components because we do not have the available data.
- 7.14 We further assume that clients who lose Incapacity Benefit as a result of employment do not regain it if they are subsequently out of work, because they would, in most instances, they would no longer be defined as eligible for disability benefits.⁴² They instead receive JSA.

Other/no benefits assumptions

- 7.15 Although JSA and Incapacity Benefit claimants are identified, all other clients are grouped in a category called "Other/no benefits". We assume that 90% of this group are either economically inactive or ineligible for benefits in some way, and the remaining clients receive half the Income Support personal allowance for 25+ year old single people and are in some sort of part-time or irregular paid employment. This percentage split is based on conversations with Tomorrow's People.

⁴² A claimant can do a small amount of permitted work without benefits being affected, but we do not consider this for simplicity.



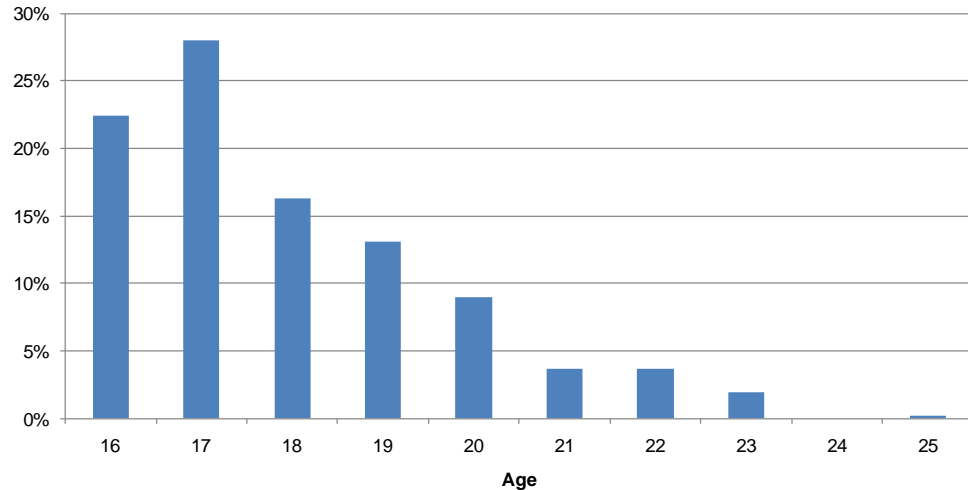
Housing Benefit

- 7.16 The benefit classes described so far are all categories in the Tomorrow's People management information database. In addition, we consider Housing Benefit.
- 7.17 Housing Benefit is a means-tested benefit that is intended to help meet housing costs for rented or mortgaged accommodation. Our assumptions for this are derived from conversations with Tomorrow's People but, given the complex nature of means-testing with the benefit, we have made simplifying assumptions.
- 7.18 Clients are long-term unemployed with low disposable income and therefore are likely to live in rented accommodation. If they are in social housing, it is likely their full rent is claimable. If they are instead in private housing, it is likely the rent cap set by the landlord is commensurate to the Housing Benefit allowance level.
- 7.19 We assume all clients are in a household that is claiming Housing Benefit in our base case for W2W. We assume they claim for a combination of one-bedroom and two-bedroom facilities, because this is the most conservative, and likely, assumption to make.⁴³
- 7.20 As Figure 7.1 shows, half of WIO clients are 16-17 years old. For these clients, it is likely the household receives Housing Benefit, rather than the client themselves, so we have assumed only a few clients are eligible to claim the benefit.

⁴³ Local Housing Allowance can apply to properties with up to 5 bedrooms but, in the absence of data for Tomorrow's People clients to tell us otherwise, we assume that the average client family requires only a 1- or 2-bedroom house.



Figure 7.1 Age distribution of WIO clients (all WIO schemes 2004/05 to 2010/11)



Source: FTI analysis; Tomorrow's People

- 7.21 For WIO, we have assumed they would typically only claim for 1-bedroom with shared facilities accommodation, which is the cheapest housing alternative available, and therefore, the most conservative assumption.
- 7.22 If a client claiming Housing Benefit finds a job, the benefit will be received at the same rate during a 4-week transition period, providing the client has not broken the terms of the benefit in the previous 6 months. Approximately a quarter of Tomorrow's People clients, especially young people, break these terms and suffer a loss of the benefit, primarily because they do not understand the benefit rules. After this period, Housing Benefit is means-tested. If a client loses their job, the reapplication for Housing Benefit can take several months to process and leave the client financially worse off. To capture this effect is complicated given the data constraints, so we include an adjusting factor to reduce the overall claim levels to take this effect into account.
- 7.23 Housing Benefit does not have significant aggregate effects compared to JSA effects for those clients that successfully find jobs because disposable incomes still remain low. Our modelling assumes that if total income is higher than the personal allowance including relevant child premiums, then the benefit paid is calculated as follows:

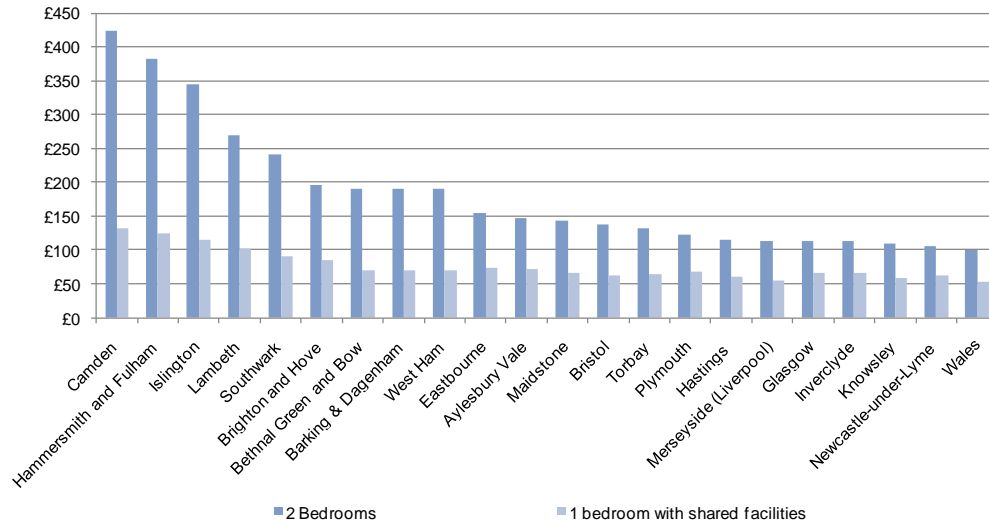


if Total Income \geq Personal Allowances plus premiums

then Maximum Housing Benefit – 65% x (Total Income – Personal Allowances plus premiums)

- 7.24 This formula is taken from the Newcastle City Council website as a good approximation of the Housing Benefit that would be received by most Tomorrow's People clients.⁴⁴
- 7.25 The Local Housing Allowance (LHA) rates per week are given for Tomorrow's People areas in the figure below. Based on this, the level of Housing Benefit received for the few WIO clients who are eligible is assumed to be a 1-bedroom with shared facilities LHA of £73 per week. For W2W, we assume all clients receive Housing Benefit at a level of £204 per week for a 2-bedroom property.

⁴⁴ See Newcastle City Council's "Calculate means tested benefits" webpage at http://www.newcastle.gov.uk/core.nsf/a/wr_calcmt#hous.

Figure 7.1 Local Housing Allowance per week (2010-11)


Source: LDA Direct

Future-proofing the assumptions

7.26 At the time of writing, the Government was considering plans to reform the benefits system and replace them with a Universal Credit.⁴⁵ Our assumptions project the status quo forward for 20 years and do not consider the potential impact of the planned changes.

7.27 For instance, the Government plans to migrate recipients from the current benefits and tax credits systems onto the Universal Credit starting in 2013. The aims of the new system include improving work incentives through a combination of improved earnings disregards and/or lower benefit withdrawal rates, smoothing the transition into and out of work and to reduce in-work poverty.⁴⁶ The Government says this will reduce intergenerational worklessness, improve social mobility and “make work pay.”⁴⁷

7.28 A significant challenge Tomorrow's People face is not only helping clients find a job, but helping them keep it. This is, at least in part, down to financial

⁴⁵ Press release, DWP (2010a).

⁴⁶ Press release, DWP (2010a).

⁴⁷ Press release, DWP (2010b).



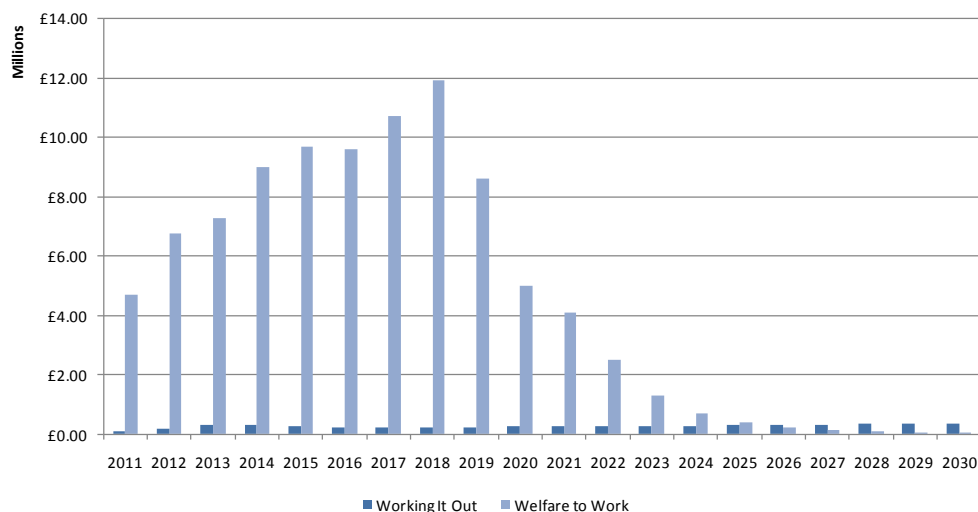
incentives between employment and not working but receiving benefits. If the Government does indeed introduce these reforms as planned, the likely effect will be to reduce benefits payments in the long run, and increase tax revenues.

7.29 Both would decrease the net benefit of Tomorrow's People, and any other organisation operating in the welfare-to-work sector.

Estimated reduction in benefits payments

7.30 Figure 7.3 below shows the profile of the savings made in benefits payments. WIO clients are younger, do not receive as many benefits as older clients and therefore a boost to their employment prospects contributes more in tax revenues, as seen in Figure 6.3 in the section above, than in saved benefits payments. For W2W, some clients retire, or become ineligible for more expensive Incapacity Benefit because they have achieved employment, even if for a short period of time. In the long-term however, because we assume clients are still in low-wage jobs compared to the general population, they continue to receive some benefits such as Housing Benefit. This explains why benefits savings are not even higher.

Figure 7.2 Gross decrease in benefits payments over time for Welfare to Work and Working It Out (2011-2030)



Source: FTI

7.31 The benefit payments saved for the Exchequer before additionality is considered are £82.8m for W2W and £5.3m for WIO since 2006/07.



- 7.32 The calculation is broken down into the simple formula we stated at the start of this section of:

Reduced benefits payments per additional job created = Benefit payments claimed prior to Tomorrow's People programme – Benefit payments claimed prior to Tomorrow's People programme

- 7.33 Although this calculation varies depending on the specific benefit clients previously claimed, as an example, for a 16 year old claiming JSA in 2010, the calculation would be:

£53 JSA 18-24 year old allowance level x 27% probability of unemployment if on Tomorrow's People scheme x 52 weeks

minus

£53 JSA 18-24 year old allowance level x 46% probability of unemployment if not on Tomorrow's People scheme x 52 weeks

equals

£1,268 – £744 = £524

- 7.34 The derivation of the unemployment probabilities is as explained in Section 5 above. The calculation is then repeated over the appraisal period of 20 years for each client group and discounted at the HM Treasury Green Book rate, as discussed further in Section 9.

- 7.35 The increase in tax receipts and savings in benefits payments from the direct economic benefits of the Tomorrow's People programmes. The next section discusses the indirect economic and social benefits.



8 Step (vi) - estimating the improved health and reduced crime benefits that result from Tomorrow's People schemes

Introduction

- 8.1 The direct economic impact of helping long-term unemployed into work quantifies the direct effects for the Exchequer. However, unemployment, particularly long-term, is associated with a range of negative social impacts which can also be estimated.
- 8.2 Although economists have attempted to quantify these impacts, there are intrinsic difficulties with isolating the effect of such employment programmes from other behavioural, social and environment factors.
- 8.3 Given these difficulties and the lack of available data, the approach we take is inherently conservative in estimating such benefits. We restrict our calculations solely to public expenditure impacts and do not consider factors that are best treated qualitatively, or where determining causality is difficult.

Impact on health expenditure

- 8.4 Assessing the causal effect of unemployment on public health costs is difficult because deteriorating health status can be reason for, rather than a consequence of, job loss. Therefore, any consideration of the saved public health costs must adjust for the bias in the causal effect.
- 8.5 The relationship between unemployment and the increased risk of morbidity is well established in the literature and discussed in DWP (2010c).⁴⁸
- 8.6 A study by Kuhn *et al* (2001) that explicitly adjusts for this reverse causality, using data on a plant closure in Austria, finds unemployment following a plant closure did not cause a significant increase in public health costs. However, mental health for men, but not for women, deteriorates, suggesting that in the short run unemployment causes mental health problems, but physical health is only affected in the long run. They find that sickness

⁴⁸ Pages 34-36, DWP (2010c).



benefit payments strongly increase after a job loss, but concede that due to the restrictive nature of the Austrian unemployment insurance system, the distress suffered may be more acute than in other countries.⁴⁹ Hammarström and Janlert (2001) find that unemployment during the 16-21 age period leads to psychological health problems for men and women, and somatic health problems with men only, later on in life. They found the best predictor of unfavourable health at age 30 was health at age 16.⁵⁰ In a study across 23 countries, Bambra and Eikemo (2008) find that the negative health effect on unemployment was strongest for women.⁵¹

- 8.7 DWP's report on a Social Cost-Benefit Analysis Framework shows that when people are unaware of the health benefits of work, the marginal utility of leisure time is greater than it would be if they understood the impacts of employment on health.⁵²
- 8.8 Since investment in health is a positive function of the amount of money available for general consumption, the increase in work will also improve health status through an increase in income.
- 8.9 Fujiwara says that while increased income may improve lifestyle and diet, with fewer monetary worries, these may already be reflected in the wage bargaining outcomes of clients. What he calls Latent Deprivation, which is made up of intangible benefits from improved wellbeing or reductions in NHS costs⁵³ should, however, be considered additional, although they would depend on the type and quality of work.⁵⁴
- 8.10 The literature on this area consistently finds latent factors to be more significant than economic factors. So, our model focuses on the benefits through reductions in healthcare provision costs.

⁴⁹ Page 3, Kuhn *et al* (2007).

⁵⁰ Page 626-7, Hammarström and Janlert (2002).

⁵¹ Page 94-5, Bambra and Eikemo (2009).

⁵² Page 32, DWP (2010c).

⁵³ Page 33, DWP (2010c).

⁵⁴ Graetz (1993) as quoted on page 34, DWP (2010c).



8.11 This is also the approach used by OEF (2004). Their method is based on how much higher per capita government health spending would be for someone who is long-term unemployed.⁵⁵ Because of the inherent difficulties in estimating the total Latent Deprivation effects, OEF (2004) does not include:

- the negative health effects that were sustained during unemployment, but which continue once employment has commenced;
- the consideration that unemployed people in bad health may suffer disproportionately worse illnesses; and
- from reduced private healthcare costs; and fourthly, from the impacts on mental and physical wellbeing (quality of life indicators).

8.12 Therefore, their work is likely to underestimate the actual benefits of Tomorrow's People programmes. NEF (2004) in fact do not attempt to monetise health benefits at all, citing the uncertainty in available health data at the time.

8.13 We use a consistent methodology, which is derived from DWP's estimates to forecast the amount of saved government health spending as shown in the table below.

⁵⁵ Page 60, OEF (2004).

Figure 8.1 Saved NHS costs per annum per job as a result of employment

Client group	Value in 2010 prices	Source
If previously claiming JSA/other/no benefit	£530	DWP (2010c)
Saved NHS costs per annum per job as a result of employment if previously claiming Incapacity Benefit	£1,060	DWP (2010c)
Weighted average for Welfare to Work based on DWP	£545	-
OEF (2004)	£780	OEF (2004)

Source: FTI; OEF (2004); DWP (2010c)

8.14 We use these figures because they are based on more recent data than those used by the OEF. However, applying the same level of saved NHS costs on all unemployed people may substantially underestimate the positive effects on Tomorrow's People clients. Their clients are "harder" cases than dealt with by JCP and yet the implicit economic assumption in using constant figures is that the marginal improvement in health as a result of getting into work is the same regardless of initial health status.

8.15 In reality, the marginal health benefit for chronic long-term unemployed clients will be greater in terms of both mental and physical well-being, which may not be captured by the averaging approach we have used. If society values a given gain in health for the poorest health groups more highly than for the less poor health groups, the health benefits are likely to also be understated in our calculations.

Impact on crime expenditure

8.16 Under standard economic utility theory, an individual will commit a crime if the expected payoff of that crime is greater than the expected payoff from not committing that crime. The four factors that would primarily determine the decision are:

- the probability of getting caught;
- the severity of the punishment;
- the monetary payoff from the crime; and



- the monetary payoff from the alternative i.e. through paid employment, education, training, receiving benefits or otherwise.
- 8.17 Within this framework, employment has an effect on crime through the wage effect rather than more intangible or emotional factors. If, in relative terms, crime does not pay as much, the crime rate will fall through employment.
- 8.18 Not only does unemployment make crime more likely, but a conviction makes future unemployment more likely.
- 8.19 The implication is that the crime rate will fall the most for people where the expected proceeds from legal activities are lowest. Therefore, an increase in the hourly wage of the poorest people in society will lead to the biggest reduction in crime rate.⁵⁶
- 8.20 DWP (2010c) provides estimates for police and legal costs saved per annum per job as a result of employment, based on studies by Grogger (1997) and Brand and Price (2000). The Grogger study broadly uses the economic utility theory framework outlined above, with some simplifications, for example with expected monetary payoffs from crime. Grogger finds that youth criminal behaviour is very responsive to changes in wages. He uses an individual level probit model and finds that a 10% increase in wages reduces participation in crime by 1.8 percentage points.⁵⁷ The DWP finds this, and other studies, are consistent with the standard utility theory framework we set out above, insofar as wages are the best measure of the opportunity cost of crime. Therefore, the most important factor in determining crime rates among low wage earners is the level of income.
- 8.21 The DWP, therefore, provides estimates for costs of (property) crime that we use for our model, as outlined in the figure below.

⁵⁶ See pages 42-44, DWP (2010c) for a more comprehensive literature review.

⁵⁷ Pages 1-2, Grogger (1997).

Figure 8.1 Annual benefits accrued to society of lower crime as a result of employment

Client group	Value in 2010 prices
Male: 17-24 year olds	£5,275
Female: 17-24 year olds	£1,275
Male: 25+ year olds	£2,660
Female: 25+ year olds	£455

Source: DWP (2010c)

8.22 These figures are based on data for unemployed people committing crimes from 2004. As the next sub-section of this report shows, the reoffending rate fell between 2004 and 2008, suggesting these figures may be an overestimate. In addition, the Grogger study is based on findings for young men, for whom offender rates are likely to be the highest in the population. On the other hand, the data is only based on property crime, which is likely to underestimate or significantly underestimate the severity of crime effects.⁵⁸

8.23 The NEF (2004) study estimates crime effects to be more severe. Using exclusion figures from the WIO pilot, it estimates the clients involved will have an average prison stay of 2 years every 10 years, and that they will commit 1.5 offences every 10 years. They also estimate criminal justice costs of £9,000 per annum at 2004 prices, which is significantly higher than our assumptions.

Probabilities of offending and reoffending

8.24 A Prince's Trust report (2010) assumes that a 1% reduction in unemployment, or in the population with no educational qualifications, will lead to a 1% reduction in the crime rate, in relation to property offences.⁵⁹

⁵⁸ For example, the greater economic cost associated with the serious violent crime and sexual offences that make up 0.7-0.9 percent of offences per 100 offenders is not considered. Pages 10-11, Home Office Statistical Bulletin (2008).

⁵⁹ Page 8, The Prince's Trust (2010).



- 8.25 The Home Office (2007) shows that the adult reoffending rate is as high as 56%,⁶⁰ and higher for young people, at 75% for young men released from prison in 2004 reconvicted within two years of release. Home Office 2008 figures show that the reoffending rate within a year of release, where the offence resulted in a conviction, was 40%, a fall from the 2004 level of 42.9%.⁶¹ Theft is the most common proven offence, followed by non-serious violence and motoring offences.⁶² It takes on average only 90 days before a reoffender commits a proven theft offence. For those who have served more than 10 previous custodial sentences, the reoffending rate rises to 79% for men and 90% for women.⁶³
- 8.26 Data on the incidence of proven offences by age show a substantial shift in profile over time. Although frequency of reoffending generally falls with age as shown in the figure below, and whilst young offenders have historically had the highest frequency rates, these have fallen substantially since 2000. The 2008 data in the figure below show that reoffending rates are broadly constant in the 18-34 age group, falling off thereafter.

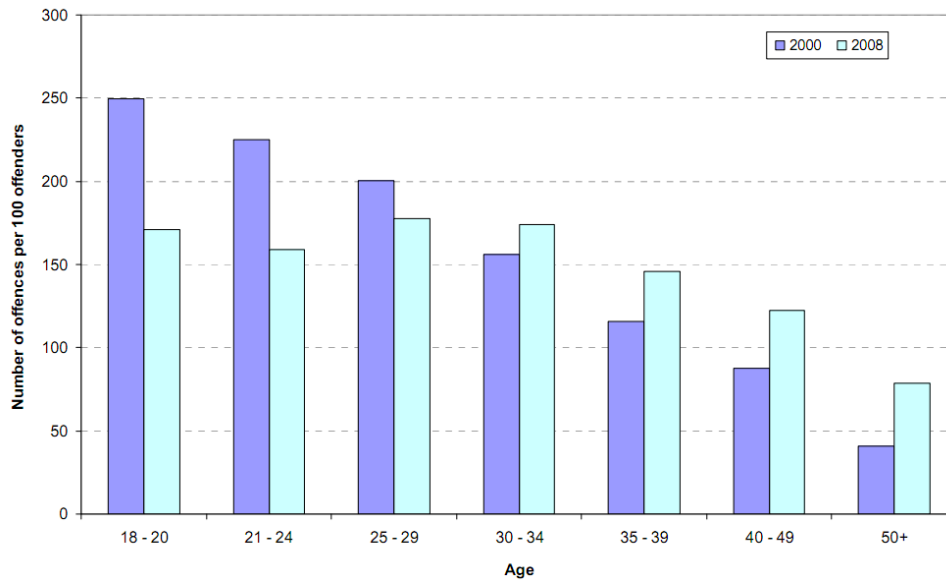
⁶⁰ Page 1, Home Office Statistical Bulletin (2007).

⁶¹ Pages 2-3, 7, Home Office Statistical Bulletin (2010).

⁶² Figure B, page 11, Home Office Statistical Bulletin (2010).

⁶³ Page 19, Prison Reform Trust (2010).

Figure 8.2 Number of proven offences per 100 offenders by age group for 2000 and 2008 cohorts



Source: Reproduced from Home Office (2010)⁶⁴

8.27 Unemployment among ex-offenders is high because of poor basic skills, but also behavioural and health problems.⁶⁵ The Fletcher *et al* (1998) study finds that 90% of those leaving prison enter unemployment.

8.28 One of the implications of the figure above is that reoffending is less likely for the target audience of Tomorrow's People now than at the time of the OEF (2004) report. OEF assumed a saving of £33,780 (in 2004 prices) for each ex-offender that did not reoffend as a result of finding employment, and that 5% of Tomorrow's People clients are ex-offenders. They assume that "finding a job reduces the likelihood of re-offending by up to 50%".⁶⁶ This assumption by OEF is confirmed by the latest prisons data available. The latest data show 40% of offenders who were in employment in the year before prison were reconvicted within a year of leaving prison compared with

⁶⁴ Figure reproduced from Figure F, page 16, Home Office Statistical Bulletin (2010).

⁶⁵ Page 10, Prince's Trust (2010).

⁶⁶ Page 50, OEF (2004).



65% of those who had not been in employment.⁶⁷ This shows that reoffending rates are at least one third smaller for those in employment.

- 8.29 The 5% figure is based on an uplift to the 2-3% of the general population leaving prison that enter the average monthly in-flow to the unemployment pool, which is a figure produced by Fletcher *et al* (1998) and is also quoted in the Prince's Trust (2010) report. On the basis that the clients dealt with by Tomorrow's People are harder cases than those otherwise dealt with by JCP, and whose monetary payoff from the alternative to crime is lower than the average ex-offender, the 5% is a reasonable, but conservative, estimate.
- 8.30 We use this figure for consistency with OEF (2004), but we further assume that only 40% of this total reoffends every year, based on the latest Home Office figures.⁶⁸
- 8.31 In addition, we assume a likelihood of offending for the first time of 10% for young people aged 18-21 and 2.5% for adults, which are consistent with ONS statistics.⁶⁹ Although people aged 18-24 account for only 10% of the UK population, 42% of first-time offenders are young adults and they accounted for one third of all those sentenced to prison each year.⁷⁰
- 8.32 To be consistent with the trend in reoffending by age-group, we assume that the longer the client is in employment, the lower the premium of the monetary payoff from the crime over the monetary payoff from the legal alternative. Therefore, the probability of offending for the first time and being convicted falls to zero within 20 years.

⁶⁷ Page 19, Prison Reform Trust (2010).

⁶⁸ Figure B, page 11, Home Office Statistical Bulletin (2010).

⁶⁹ The latest available figure is given as circa three percent in page 37, The Prince's Trust (2010). This is for the average 18-21 year old age group.

⁷⁰ Page 33, Prison Reform Trust (2010).



Prison costs

- 8.33 Prison costs are £40,000 a year for convicted adults according to Hansard (2008).⁷¹ This figure is comparable to the Prince's Trust (2010) study, which estimates the total cost per prisoner as being £41,000,⁷² and NEF (2003), which estimates £37,500 at 2004 prices. The Brand and Price (2000) study on which the DWP analysis is based does take into account Prison Service costs.
- 8.34 This section discusses prison costs that may be incurred *in addition to* those covered by the Brand and Price paper, which we believe underestimates prison costs for Tomorrow's People clients because they, and by extension the DWP paper, only consider property and vehicle crime. The source and derivation of these estimates are unclear, so the magnitude of additional cost that should be considered is not possible to gauge. However, Brand and Price presents a graph that shows the average cost estimate for more serious crimes can be up to 4.5 times as much for vehicle theft and 8 times as much for property crime.
- 8.35 We believe it would not be reasonable to consider such a considerable uplift to crime costs without further research and so, for both conservativeness and simplicity of calculation, we use the prison costs as per Hansard.
- 8.36 Our calculations apply the prison cost savings to the rate of reoffending and rate of offending as explained in the sub-section above. We calculate the prison cost savings before additionality as £7.0m for W2W and £2.0m for WIO.
- 8.37 If the conviction rate for first-time adult offenders was instead 5%, the prison costs saved increase by £3.0m for W2W. If the proportion of Tomorrow's People clients that are ex-offenders is doubled to 10%, the prison costs saved increase to £10.8m and £2.8m, respectively, for W2W and WIO. If

⁷¹ Hansard Written Answers, 25 November 2008, Prison: Per Capita Costs, Column 1304. Adjusted for inflation; this excludes prisoners held in police and court cells under Operation Safeguard and expenditure met by other Government Departments (e.g. for health and education). The prisoner escort service is included.

⁷² Excluding estimates for how much 'dealing with young offenders' costs the police, the courts, legal aid and the Crown Prosecution Service. page 30, The Prince's Trust (2010).



instead, the Fletcher *et al* (1998) assumption that 90% proportion of ex-offenders that are unemployed is halved, the prison costs saved decrease by £1.4m across the two programmes.

Case studies of W2W schemes where prison cost assumptions are likely to be grossly underestimated

- 8.38 The saved crime costs we have assumed here are likely to apply to the typical Tomorrow's People scheme, but will underestimate the potential benefits when schemes aimed at ex-offenders, such as Getting London Working (GLW) and Getting Sefton Working (GSW), are considered.⁷³
- 8.39 Both are among the most successful W2W schemes run by Tomorrow's People. GLW, which was aimed at the most deprived boroughs in London, concluded in 2006 and GSW, aimed at re-offenders in Merseyside, started two years before the period under consideration for our model. Continuation or inclusion of the full schemes, respectively, would have resulted in a higher W2W SROI.
- 8.40 Tank was commissioned by Tomorrow's People in 2006 to evaluate the GLW scheme. The scheme ran from 1999 to 2006 and was funded by the London Development Agency (LDA) Single Regeneration Budget (SRB). The focus of the scheme was on economically inactive clients, who may not have otherwise accessed such services. 64% of the clients on the programme were from Black, Asian and Minority Ethnic (BAME) groups. Camden, Islington, Lambeth and Southwark were the four boroughs chosen as they are amongst the most deprived parts of the country, with the targeted wards having unemployment rates as high as 17%.⁷⁴
- 8.41 The proportion of economically inactive clients in the Tank (2006) study is lower than we have assumed for our model. We assumed 80% of the 59% of all clients recorded as receiving "No/Other benefit" are economically inactive, based on conversations with the Tomorrow's People Senior Management Team. For GLW, this proportion is higher – 100% of the 31% of all clients

⁷³ These are both specific examples of schemes that are part of Tomorrow's People's overall Getting Cities Working (GCW) set of schemes.

⁷⁴ Page 4, Tank (2006).



recorded as receiving “No/Other benefit” are economically inactive. The proportion of disabled clients is seven times higher for GLW at 15%.⁷⁵ As a result, the proportion of clients that were unemployed for over 36 months was significantly higher than in our model, at 17%.

8.42 There are several outcomes of this scheme that make it among the best performing Tomorrow's People schemes. 52% of clients achieved a successful job outcome, compared to c.30% for other W2W schemes. Of these clients, sustainability rates were significantly higher, with 80% remaining in employment for at least 12 months, compared to c.50% for other W2W schemes. The gross cost per client was £3,560. Total scheme benefits of £15m compared to total costs of £5.3m give a SROI of £1:£2.80, higher than what we found for W2W and WIO.⁷⁶ The GSW scheme supports ex-offenders in the Sefton area to get into sustainable employment. Tomorrow's People was originally invited in April 2004 to commence 1:1 outreach delivery at the Liverpool and Wirral Probation offices and GSW commenced in January 2006. By August 2009, GSW had helped get 195 people into work, including 71 with a disability. The gross cost per paid job outcome in this case was £1,893, which is less than for WIO and the overall W2W programme. Tomorrow's People calculates that this produced £2.8m of benefits for the economy compared to a total cost of delivery of £0.35m. This gives a substantially higher SROI of 8.0.

⁷⁵ Page 11, Tank (2006).

⁷⁶ Page 8, Tank (2006).

Figure 8.3 Successful outcomes for GSW and GLW projects⁷⁷

Outcome	GSW (January 2006 - August 2009)	GLW (Autumn 1999 - March 2006)
Project starts	683	4,874
Job outcomes	195	1,660
Progressions to further education/training	210	875
Total successful outcomes	59%	52%

Source: Tank (2006); Tomorrow's People (2009)

Induced impacts on esteem and peer effects

- 8.43 There are several qualitative positive effects of employment that we have not modelled, primarily due to the uncertainty associated with such estimates in the economic literature.
- 8.44 We modelled only first-round effects. There may be second-round effects that we have not considered, such as the effect on re-employment on children. A parent becoming re-employed has a positive external impact on a child or a member of the household's ability to engage in employment. Similarly, if a parent shirks from employment, their child may be more likely to shirk and claim benefits.
- 8.45 From conversations with Tomorrow's People staff, it is clear the effects on self-esteem and confidence of employment are important determinants of improved quality of life with clients. It is difficult to model such intangible effects, but it should be apparent that the lack of a job could lead to lower self-esteem and depression, which will manifest in health costs calculations through the additional expenditure required by the health service on treatment.
- 8.46 Many prisoners have mental health problems. 72% of male and 70% of female sentenced prisoners suffer from two or more mental health disorders.

⁷⁷ Page 5, Tank (2006); page 3, Tomorrow's People (2009).



20% of prisoners have four of the 5 major mental health disorders.⁷⁸ People aged 18-24 that are in prison are more likely to suffer from mental health problems and are more likely to take, or try to take, their own life than other prisoners.⁷⁹

8.47 The Prince's Trust YouGov Youth Index (2010) has also illustrated that "psychological scarring" due to unemployment can leave young people feeling less happy and with poorer health.⁸⁰

8.48 We have not attempted to calculate any of these factors and as such underestimate the actual SROI for both programmes.

Estimated reduction in public health and crime related expenditure

8.49 The saved NHS costs relating to health benefits are £1.3m for W2W and £0.4m for WIO before additionality adjustments.

8.50 This is made up of £1,057 of saved NHS costs per annum at 2010 prices for those clients who were claiming Incapacity Benefit and £529 per annum for all other clients. These figures are based on DWP (2010c) assumptions, which are used because they are more recent than the corresponding figures used by OEF (2004). OEF used an assumption of £828 per annum in saved NHS costs per client per annum, which would result in £1.0m higher health benefits for the UK economy in our model.

8.51 The saved government expenditure relating to reduced police and legal costs is £7.7m for W2W and £1.3m for WIO before additionality adjustments. The saved prison costs are £7.0m for W2W and £2.0m for WIO. These are based on an annual prison cost figure taken from the DWP and assumptions about annual benefits accrued to society of lower crime as a result of employment that come from DWP (2010c).

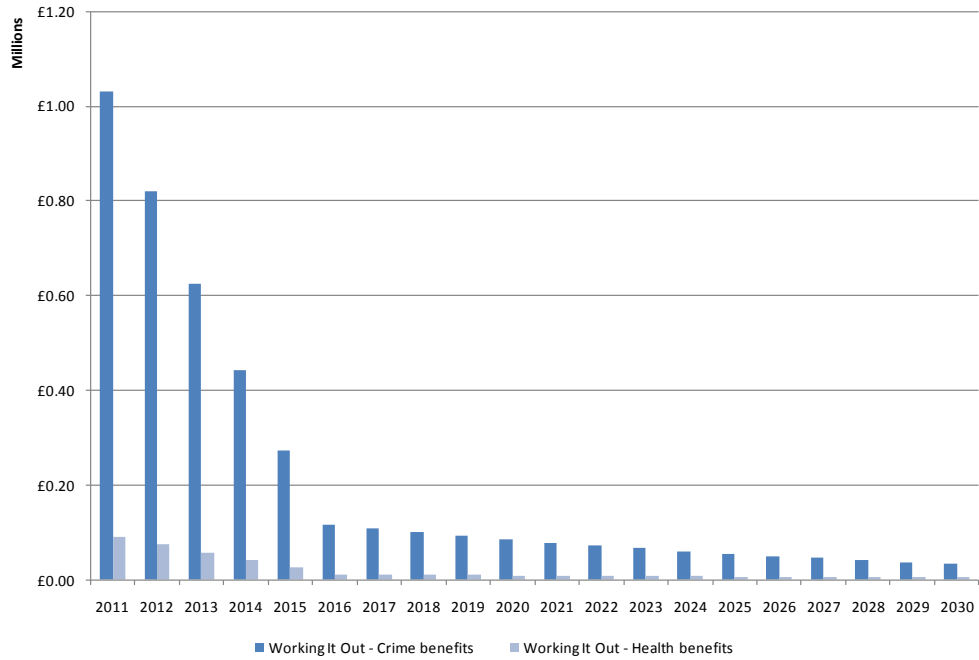
⁷⁸ Page 39, Prison Reform Trust (2010).

⁷⁹ Singleton *et al* (2000), quoted in Prison Reform Trust (2010).

⁸⁰ As quoted on page 23, The Prince's Trust (2010).



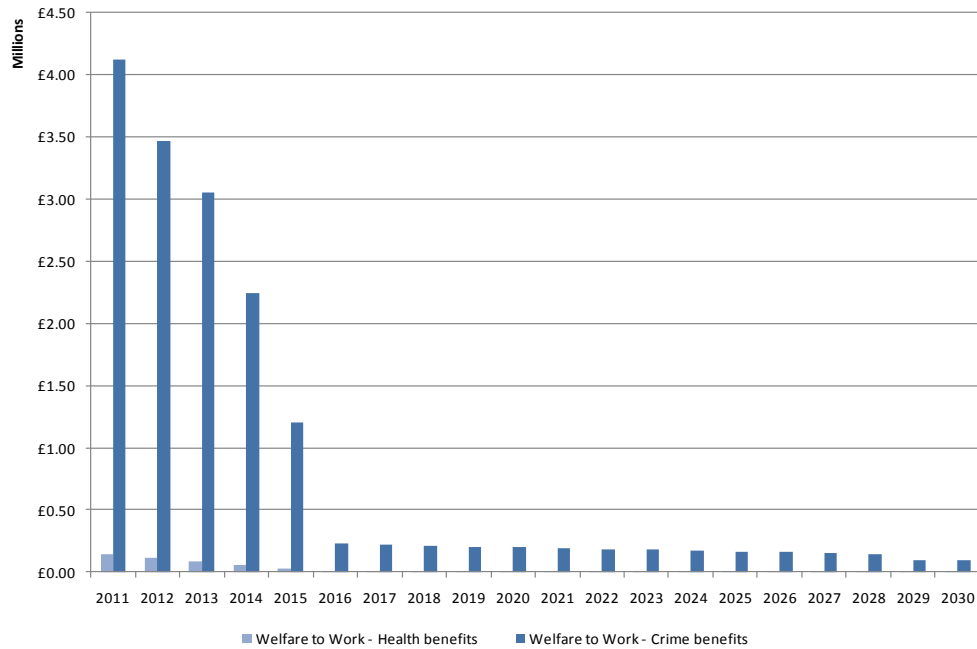
Figure 8.4 Gross health and crime benefits over time for Working It Out (2011-2030)



Source: FTI



Figure 8.5 Gross health and crime benefits over time for Welfare to Work (2011-2030)



Source: FTI

8.52 Figure 8.5 and 8.6 show these savings profiled over time. For WIO, both the direct crime and health benefits are highest when clients are young. For W2W also, Tomorrow's People schemes have a much greater effect, relative to the status quo, when clients are young. After some years, the employment uplift for Tomorrow's People W2W clients relative to the average adult unemployment rate tends to zero and therefore the benefits are also zero. This is clearly a conservative assumption, but has only a small bearing on the SROI – if the benefits profile seen in Figure 8.6 was extended to 2030, the SROI would increase by only 0.1.



9 Step (vii) - taking into account further "additionality" factors

Introduction

- 9.1 In any cost-benefit analysis, or indeed in any form of investment appraisal, it is important to not include benefits that would have taken place in any event. It is also important to take into account any detrimental effects that might arise from Tomorrow's People programmes as well as the positive effects e.g. it could be the case that if a Tomorrow's People gets a job, this prevents someone else from getting it. In such an event, Tomorrow's People intervention has displaced someone from getting that job at the expense of getting one of their own people in employment.
- 9.2 There are several such effects that typically need to be considered and we do so in a section of our calculations entitled "additionality factors" (vii). Additionality is made up of four factors including:
- **Deadweight:** The term deadweight refers to the extent to which a person helped into a job by Tomorrow's People might have been expected to get a job in any case. This factor is taken into account in our methodology step (iii).
 - **Displacement:** This is the opportunity cost of investing in current programmes at the expense of other potential programmes.
 - **Leakage:** Leakage is identified as benefits which accrue to areas outside the target area of the intervention.
 - **Substitution:** Substitution is essentially the cannibalisation effect whereby a job taken by someone helped by Tomorrow's People would otherwise have gone to someone else.
- 9.3 There is, in addition, a further factor that needs to be taken into account, known as multiplier effects. These are the knock-on effects on spending in the economy as a result of employed Tomorrow's People clients having more disposable income.
- 9.4 Once the gross benefits are determined, before they can be divided by costs to give a ratio of benefits and costs, the effects of additionality must be



considered. The assumptions made here can have potentially large impacts on the results.

- 9.5 Additionality tends to be greater where the intervention is targeted towards harder-to-reach people. Although there is considerable literature and advice on calculating additionality,⁸¹ estimates vary considerably. Our approach is to be conservative in all our estimates.

Deadweight

- 9.6 The term deadweight refers to the extent to which a person helped into a job by Tomorrow's People might have been expected to get a job in any case. It would be wrong in our analysis to attribute all jobs gained by Tomorrow's People clients if some of those people would have got jobs anyway. We ought to count only those jobs that were gained *over and above* what would have happened in the absence of Tomorrow's People intervention.
- 9.7 As our modelling approach compared the factual and the counterfactual cases, deadweight is already taken account of in step (iii) of our methodology.
- 9.8 Tank (2006), for example, did not use this “net” approach in their modelling and used a 66% factor to account for deadweight.⁸² NEF (2003) cited the extremely disadvantaged and socially excluded nature of the WIO pilot clients for their use of a 25% deadweight factor, which explains the high SROI of 3.0 after just a 5-year appraisal period. Using the Tank (2006) assumption would have reduced their SROI to 1.3.⁸³
- 9.9 NEF does, however, consider a sustainability factor in addition to deadweight, which is analogous to our sustainability rates calculated in Section 5. In the absence of robust data at the time, NEF's assumption is surprisingly accurate. The study applies a sustainability rate of 75% to gross benefit figures without any hard evidence, as described in NEF's report.⁸⁴

⁸¹ See, for example: English Partnerships (2004); HM Treasury (2003); DWP (2010c).

⁸² Page 26, Tank (2006).

⁸³ Page 39-30, NEF (2003).

⁸⁴ Page 39-30, NEF (2003).



However, as per Section 5 in this report, for WIO, this is actually a good reflection of the facts.

- 9.10 The Department for Communities and Local Government (CLG) New Deal study determines a wide range of funding and beneficiary deadweight figures separately, for a range of activities that would benefit from the scheme, such as crime, education, worklessness and health.⁸⁵
- 9.11 However, in the strictest interpretation of deadweight, the counterfactual should consider what benefits would accrue to the British economy if Tomorrow's People was not awarded government contracts and received no funding and donations. Instead most, if not all of these sources of income would accrue to other "competitors" such as A4e, Working Links or the Prince's Trust. In this case, the SROI would provide an indication of the efficiency of Tomorrow's People relative to the alternatives i.e. how much extra benefit would the British economy accrue if Tomorrow's People received these funds rather than the next best alternative? That, of course, assumes comparable data is available and substitutability between organisations is calculable.

Displacement

- 9.12 This is the opportunity cost of investing in current programmes at the expense of other potential programmes. In other words, if the money spent by the Government on contracts with, or by donors on funding for, Tomorrow's People had been spent elsewhere instead, this is the resultant the net effect on the economy.
- 9.13 As per the HM Treasury Green Book, appraisals are concerned only with the extent to which an intervention such as a W2W contract displaces economic activity in another area in a target region – which, in this case, is the UK.
- 9.14 OEF (2004) uses an assumption of zero displacement.⁸⁶ The New Deal uses a range of displacement rates. We assume a displacement rate of 20%, based on a range of values provided by the CLG (2010). The New Deal

⁸⁵ Pages 87-90, CLG (2010b).

⁸⁶ Displacement is not discussed in the OEF (2004) report.



displacement assumption in that study is based on the possible negative effect on other projects of the introduction of the New Deal, which causes those projects to lose some participants.⁸⁷ This is based on the reasonable assumptions that we do not think that the next best alternative for clients would close down, become less viable or lose the majority of their clients, because Tomorrow's People runs W2W and WIO programmes. The greater the substitutability between clients attending a scheme run by Tomorrow's People or another organisation, the greater the displacement.

Leakage

- 9.15 Leakage is identified as benefits which accrue to areas outside the target area of the intervention. For a programme such as the New Deal, this would include New Deal residents receiving New Deal-funded training, who secure a job and then move out of the area; or jobs created within New Deal areas filled by non-New Deal area residents.
- 9.16 But a consideration for leakage is not relevant for this study. Even if a Tomorrow's People client moves to another part of the country, any job secured as a result of Tomorrow's People still counts as a successful outcome. The relevant target area for the purposes of our study is therefore the whole of the British economy. Assuming net benefits accrued do not leave the British economy, the leakage is zero.

Substitution

- 9.17 Substitution is essentially the cannibalisation effect whereby a job taken by someone helped by Tomorrow's People would otherwise have gone to someone else.
- 9.18 There is considerable variation in the estimates used for substitution across the literature. DWP (2010c) recommends 20%⁸⁸ and CLG (2010) 8-19%.⁸⁹ DWP (2010c) says that demand-side programmes (e.g. employer subsidies such as the New Deal) result in larger substitution effects compared to

⁸⁷ "Small" is "less than 50 percent" as per the New Deal evaluation report assumption. The alternative is "more than 50 percent." Page 98, CLG (2010b).

⁸⁸ Pages 20-22, DWP (2010c).

⁸⁹ Table A2.18, page 102, CLG (2010c).



supply-side programmes (e.g. facilitating job search as Tomorrow's People does). The New Deal evaluation, where jobs are directly subsidised, uses a range of 8-19% for individual worklessness interventions.

- 9.19 The OEF (2004) additionality estimate only includes an overall figure for deadweight and substitution effects, not displacement and leakage. This overall figure is given as 70-85% i.e. only 15-30% of benefits accrued from their modelling are "additional". This is more conservative than individual estimates, but as there has been further research into this area since the OEF study and we have considered the merits of each factor individually, we believe our estimate is conservative and reasonable. We use 20% for the substitution effect.

Multiplier effects

- 9.20 The multiplier effect has two components. The first relates to the clients who, as a result of the programme, have more money to spend on goods and services, which fuels further economic activity. The second is a multiplier that is generated from the original increase in expenditure i.e. the increased spending power of the employees of Tomorrow's People who receive and spend the donation or contract values.
- 9.21 The first is what English Partnerships (2004) calls "a supply linkage multiplier".⁹⁰ This reflects the knock-on effects on the British economy of the increased spending power of clients who, as a result of Tomorrow's People programmes, have more money to spend and which lead to further purchases associated with linked firms along the supply chain. The second multiplier is called a "Keynesian multiplier" by DWP (2010c)⁹¹ and an "income multiplier" by English Partnerships (2004). It is generated from the original increase in expenditure i.e. the increased spending power of the employees and related supply chain of Tomorrow's People who receive and spend the monies.

⁹⁰ Page 22, English Partnerships (2004).

⁹¹ Page 19, DWP (2010c).



- 9.22 OEF (2004) assumed a multiplier of 1.25⁹² based on simulations using the OEF Macroeconomic Model of the UK economy. English Partnerships (2004) use a very wide range of 1.05 – 1.7.⁹³ We think both estimates are too high.
- 9.23 We assume there is no multiplier effect i.e. that the multiplier effect is 1.00. This is influenced by the DWP's recommendation to exclude it,⁹⁴ because current multiplier estimates from the English Partnerships (2004) represent too wide a range to be able to select an appropriate multiplier with confidence. Furthermore, their work is based on local and regional property-related estimates from research done in the mid-1990s, which may no longer be applicable.
- 9.24 DWP (2010c) also suggests that any rise in spending power for the particular demographic Tomorrow's People help is likely to be limited because the job outcomes are low wage outcomes and disposable incomes are still low.⁹⁵ Small increases in income for people on benefits make a critical difference, but through more qualitative factors such as reduced stress and increased self-worth as discussed in Section 5.
- 9.25 Finally, the paper argues the net effect on the secondary markets (i.e. the markets in which the extra spend on goods and services occurs) is uncertain. Unless these markets are significantly distorted (e.g. through monopoly power), classical economic theory implies there would be no additional effects.⁹⁶ We take on board these caveats presented by DWP (2010c) and exclude multiplier effects as a result. However, it means we are conservative with our conclusions in comparison with OEF (2004).

⁹² Page 48, OEF (2004).

⁹³ Page 24, English Partnerships (2004).

⁹⁴ Page 49-51, DWP (2010c).

⁹⁵ Had we assumed, for example, successful job outcomes earned median ASHE wages, rather than wages of the bottom 25 percent, disposable income would have been significantly higher and there would be a greater case for using a higher multiplier.

⁹⁶ Page 50, DWP (2010c).



The discount rate

- 9.26 An appropriate discount rate must be applied to all costs and benefits to be able to state them in consistent 2010 prices. We use the Bank of England target Consumer Price Index (CPI) inflation rate of 2% to convert all future prices into constant 2010 prices.
- 9.27 The HM Treasury Green Book recommends applying a 3.5% Social Rate of Time Preference (SRTP) discount rate to constant prices.⁹⁷ The SRTP reflects the rate at which society is willing to substitute present for future consumption.

Summary - additionality factors assumed in the FTI analysis

- 9.28 This study first estimated the gross employment increase as a result of Tomorrow's People and then calculated in Section 5 how many of those clients would have experienced a successful outcome anyway. This was effectively a proportionate decrease in the gross employment increase by cohort to arrive at a net employment increase which enabled us to calculate the tax, benefits and health and crime benefits in the sections above.
- 9.29 This proportion was calculating deadweight, which we no longer need to subtract from our benefit figures. The way the rest of the additionality factors are taken into consideration is identical, and given by the following formula:

$$\text{Net Benefit} = \text{Gross Benefit} \times (1 - \text{Deadweight}) \times (1 - \text{Displacement}) \times (1 - \text{Substitution}) \times (1 - \text{Leakage}) \times \text{Multiplier}$$

- 9.30 The benefit of Tomorrow's People, net of only deadweight, is £105.8m for W2W and £18.9m for WIO. These figures provide a SROI of 3.5 and 3.2, respectively.
- 9.31 The table below lists the additionality assumptions discussed in this section of the report.

⁹⁷ Page 5, HM Treasury (2008).

Figure 9.1 Additionality factors used

Additionality factor	Value
Deadweight	0%
Displacement	20%
Substitution	20%
Multiplier effect	1.0
Leakage	0%

Source: FTI

9.32 Taking these factors into account, the net benefit now is:⁹⁸

$$(\pounds 105.86m + \pounds 18.9m) \times (1 - 0\%) \times (1 - 20\%) \times (1 - 20\%) \times (1 - 0\%) \times 1.0$$

$$= \pounds 124.7m \times (1 - 36\%) = \pounds 79.8m$$

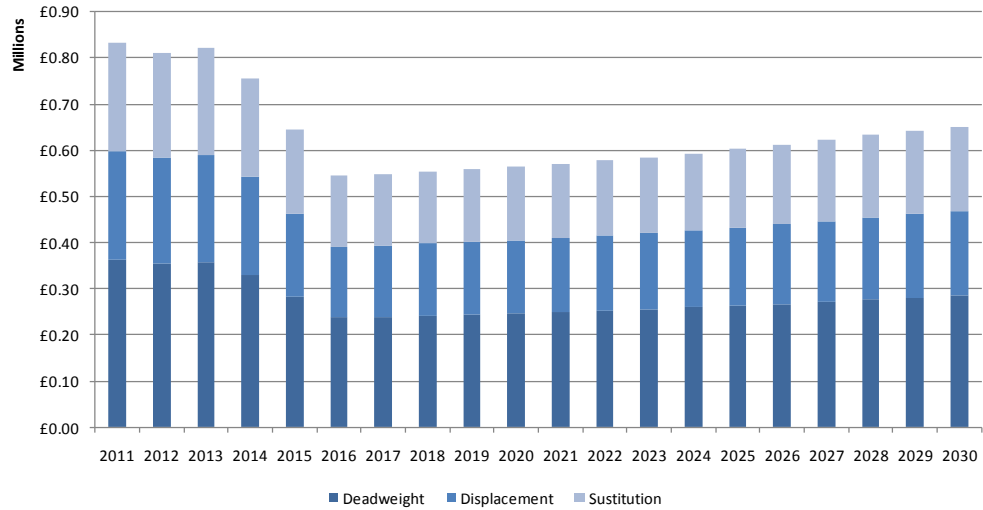
9.33 This is made up of £67.7m of benefits net of additionality for W2W and £12.1m for WIO. These figures provide the SROIs of 2.4 for W2W and 2.9 for WIO.

9.34 Figure 9.2 and Figure 9.3 show the three components of the additionality that we remove from gross benefits to arrive at net benefits. The factors applied for each of deadweight, displacement and substitution are constants for over time, as per Figure 9.1 above. As is clear from the figures, the profile for both WIO and W2W is very different – this is driven by the differences in average age of clients between the two programmes and sustainability factors, whereby Tomorrow's People may be successful in helping clients find a job, but not necessarily in keeping a job.

⁹⁸ Some rounding differences.

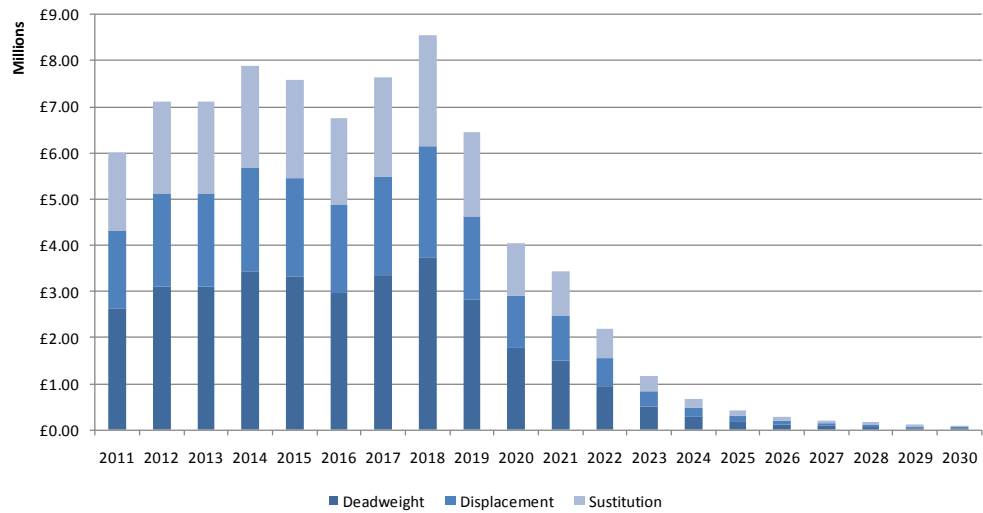


Figure 9.2 Deadweight, displacement and substitution effects over time for Working It Out (2011-2030)



Source: FTI

Figure 9.3 Deadweight, displacement and substitution effects over time for Welfare to Work (2011-2030)



Source: FTI

Appendix 1 Characteristics of Tomorrow's People areas and clients

- A1.1 On some measures, the investment required by Tomorrow's People to produce the benefits outlined in this report is higher than for comparable programmes. The FND cost per job is around £2,300 and for New Deal for Young People (NDYP), this figure is £2,850-£4,000.⁹⁹
- A1.2 The Fifth Report of the Select Committee on Education and Employment (2001) however that once reasonable sustainment and deadweight adjustments are made, these costs could be as high as £37,000.¹⁰⁰
- A1.3 But looking at gross figures ignores the *net* impact on government transfers due to a reduction in unemployment. An SROI analysis is helpful because it focuses debate on "value" rather than "cost",¹⁰¹ which is the more important consideration for policymakers and potential Tomorrow's People donors. Another meaningful welfare comparison would be to ask whether those who have gained from the programme could compensate the taxpayers who have financed it and still be better off. The figures should also be viewed in the context of the type of person that is a typical Tomorrow's People client i.e. harder-to-reach and amongst the most disadvantaged in society.
- A1.4 The key characteristic of the areas in which Tomorrow's People run W2W and WIO is that they are areas of high unemployment relative to the UK average, as shown by the figure below. In particular, areas in which WIO operates are particularly disadvantaged.

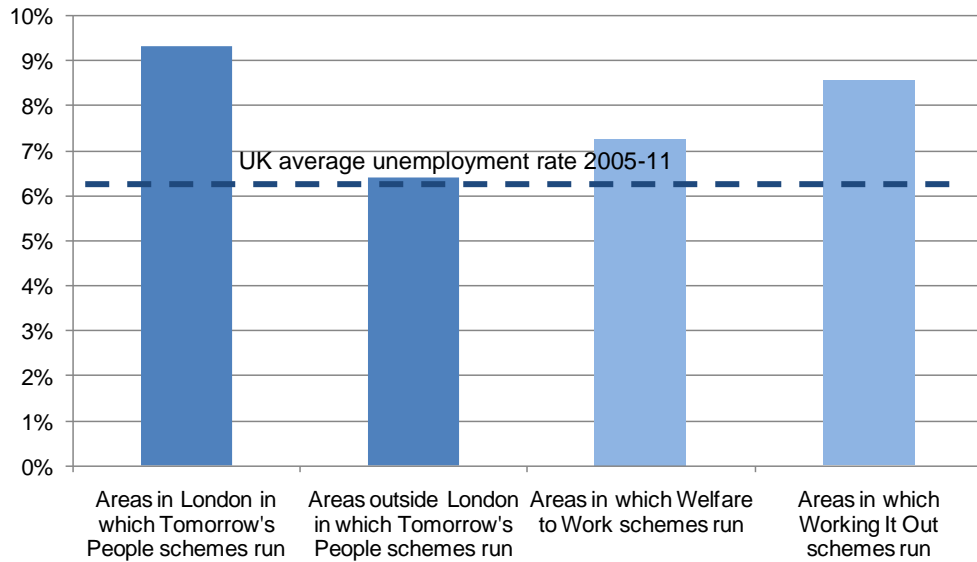
⁹⁹ Slide 18, DWP (2008a).

¹⁰⁰ Paragraphs 18-19, Select Committee on Education and Employment (2001).

¹⁰¹ Page 5, CFPS (2010).



Figure A1.1 Average adult unemployment rates by area in which Tomorrow's People operates and programme¹⁰²



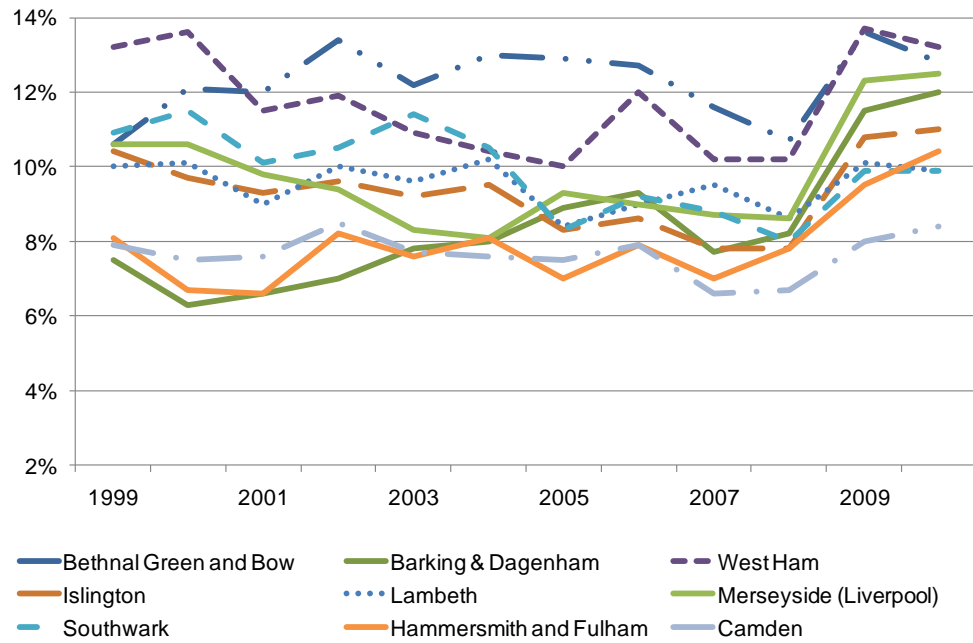
Source: ONS; Stats Wales; Tomorrow's People

A1.5 The difference between London and areas outside London is marked. The two graphs below show that although the latter areas suffered much higher increases in unemployment in the 2008-2009 economic downturn, the overall rate of unemployment was still consistently higher in the London boroughs in which Tomorrow's People operates.

¹⁰² 10-year average unemployment rates for the period 1999-2009. Where ONS data was not available, London Local Authority data was used.

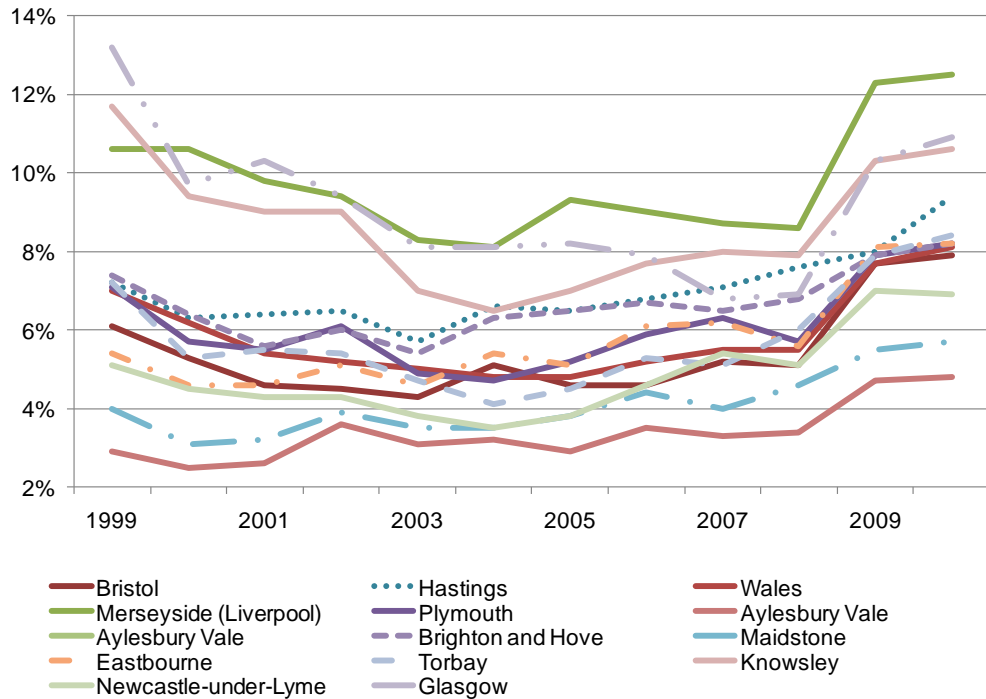


Figure A1.2 Adult unemployment rates in London areas where Tomorrow's People schemes run



Source: ONS

Figure A1.3 Adult unemployment rates outside London where Tomorrow's People schemes run



Source: ONS; Stats Wales

A1.6 Related to this is the issue of deprivation. The concentration of social sector housing for Tomorrow's People areas is much higher than the national profile of housing stock. As the table below shows, it is also much higher than for areas where the New Deal operates, showing Tomorrow's People clients are generally in more deprived areas.

Figure A1.4 Percentage of residents in social sector housing (2008)

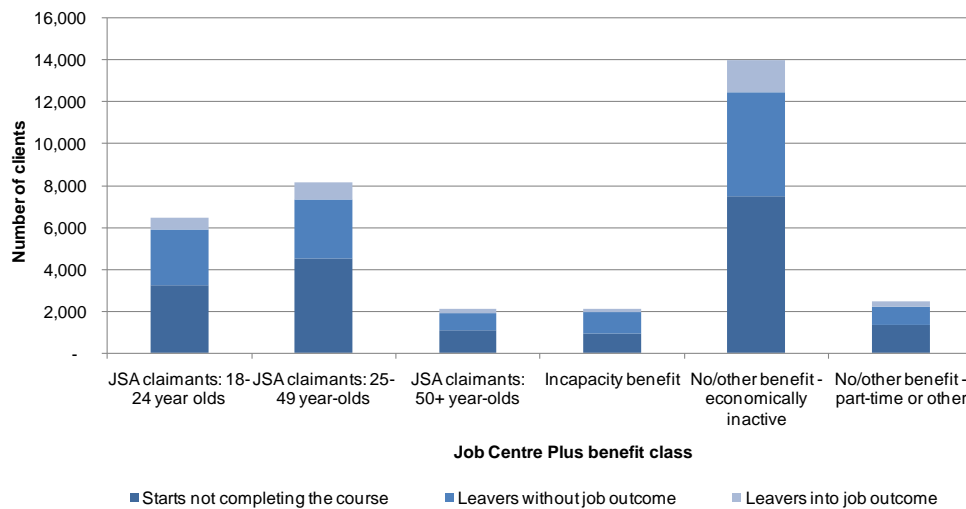
Area	Percentage in social sector housing
Tomorrow's People areas	61%
New Deal areas	55%
National Average	18%

Source: Ipsos MORI; FTI^{103 104}

- A1.7 Higher deprivation is associated with a dependency on the welfare state. Most of Tomorrow's People clients claimed benefits before joining a scheme. Figure A1.5 below shows the breakdown of starts and leavers with and without successful job outcomes across all W2W schemes. The split of clients by JCP benefit classes is taken from Tomorrow's People management information.
- A1.8 The proportion of clients that are over 50 or claiming Incapacity Benefit is low. Successful job outcomes as a proportion of all leavers are lowest for Incapacity Benefit claimants (24%) and highest for the "JSA 50+ age group" category (54%).

¹⁰³ Ipsos MORI New Deal for Communities household survey, Survey of English Housing 2001/02, 2007/0; adapted as Table 1: Percentage of residents in social sector housing, 2002–2008, page 10, CLG (2010b).

¹⁰⁴ New Deal figure is averaged over 39 areas in England. Tomorrow's People figure is based on CLG (2010b) data and therefore excludes Scotland and some England areas. The overall effect of this is likely to underestimate the percentage of residents in social sector housing for Tomorrow's People.

Figure A1.5 Breakdown of Welfare to Work categories¹⁰⁵


Source: FTI; Tomorrow's People

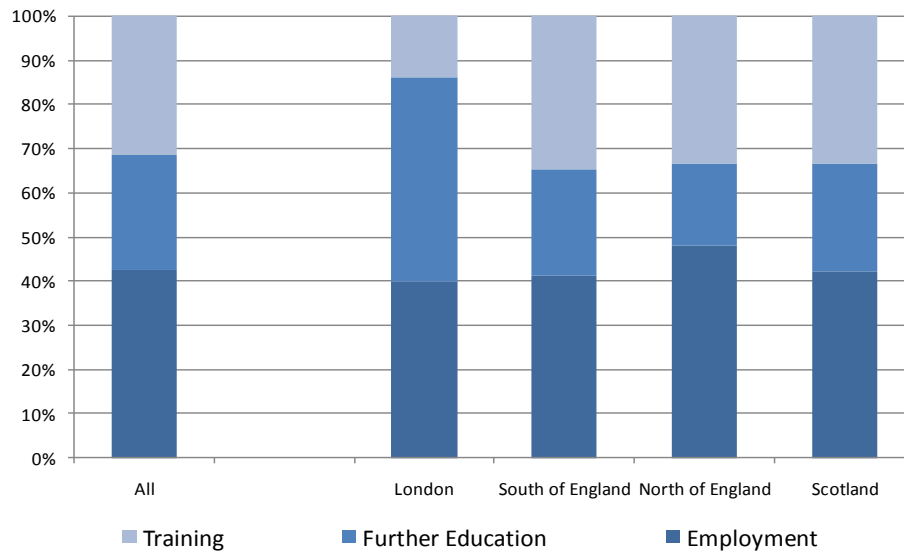
- A1.9 This latter percentage reflects a number of contracts in which the organisation is required to engage with individuals who are not on mainstream DWP programmes; and as such it shows effective engagement with those economically inactive individuals who may not appear on official Government unemployment statistics, but who are nevertheless disadvantaged and/or in poverty.
- A1.10 Around half of Incapacity Benefit claimants have been claiming the benefit for more than five years and 60% have no formal qualifications.¹⁰⁶ This is a much higher proportion than in the general population of long-term unemployed and so a lower proportion of successful job outcomes would be expected.
- A1.11 For WIO, Figure A1.6 shows the progress destinations of the 91 task forces in our sample. Of this group, London has the highest proportion of clients entering further education and training at scheme completion, while Glasgow and the north of England have the highest proportion progressing into job outcomes. The London data is based

¹⁰⁵ For years 2008/09, 2009/10 and 2010/11 to September 2010. For earlier years, a breakdown by JCP benefit classes is not available. The split between "economically active" and "part-time or other" in the "No/other benefit" category is based on conversations with the management committee.

¹⁰⁶ Table 3.2, Table 3.3, Table 3.4, DWP (2009).

on twelve task forces that ran from 2007 to 2010 in Southwark and Hammersmith, neither of which have the highest historical unemployment rates in London, as per the figure in the section above.

Figure A1.6 Progression destinations for 91 WIO task forces (2004/05 to 2010/11)



Source: *Tomorrow's People*

A1.12 Having said that, WIO clients are primarily in the 16-17 age group, which means they are unlikely to claim benefits such as Housing Benefit or JSA, although it may be the case that others in the same household do claim these benefits.

Appendix 2 Sensitivities: maximum and minimum SROI values

- A2.1 The following tables provide scenarios for determining the upper and lower bound of our SROI figures.
- A2.2 The individual scenarios considered are not necessarily the most realistic, but reflect a set of all of the most optimistic or pessimistic states individual assumptions. Each line item shows the impact of just that scenario, independent of others, whereas the Optimistic Case and Pessimistic Case at the bottom of the tables reflect a cumulative effect of all of these line items, taking into the account interactions between each scenario. These represent Upper and Lower Bounds for our SROI figures.

Figure A2.7 Scenario: Upper bound for SROIs

Scenario	Deviation from Base Case SROI	
	Welfare to Work	Working It Out
Appraisal period: Increased by five years	-0.2	+ 0.3
Working age: Theoretical maximum age to which worked in life of 65 years	+ 0.1	0
Working hours are 50 hours per week	+ 0.2	+ 0.7
Wage assumption: London "living wage" assumed for London clients	+ 0.3	+ 0.3
WIO: Length of employment if recorded as "over 6 months" is 24 months	N/A	+ 0.1
W2W: Length of employment if recorded as "over 12 months" is 36 months	+ 0.2	N/A
Health: Health benefits of £780 per person per annum per OEF (2004)	< + 0.1	+ 0.1
Crime: 20% probability of reoffending; 10% probability of first-time offending	+ 0.8	+ 0.8
Additionality: Displacement or substitution of 10%	+ 0.3	+ 0.4
Additionality: Multiplier effect of 1.25	+ 0.6	+ 0.7
Discounting: 1% S RTP	+ 0.1	+ 0.1
Base Case	2.3	2.9
Optimistic Case (cumulative of above effects)	5.2	7.1

Source: FTI analysis

Figure A2.8 Scenario: Lower bound for SROIs

Scenario	Deviation from Base Case SROI	
	Welfare to Work	Working It Out
Appraisal period: Reduced by five years	- 1.2	- 0.7
Working age: Theoretical maximum age to which worked in life of 55 years	- 0.2	0
WIO: Short-term probability of unemployment 17% without programme (OECD)	N/A	- 0.2
Wage assumption: If on Tomorrow's People programme, only earn Minimum wage plus inflation (i.e. difference between wage in factual and counterfactual scenarios is inflation factor)	- 0.8	- 0.9
Health: No health benefits	< -0.1	- 0.1
Crime: No crime costs saved	- 0.2	- 0.3
Additionality: Displacement or substitution of 40%	- 0.3	- 0.4
Discounting: 6% SRTP	- 0.1	- 0.1
Discounting: 3% inflation rate	< -0.1	- 0.1
Wage assumption: Wage inflation of 2%	- 0.1	- 0.1
Base Case	2.3	2.9
Pessimistic Case (cumulative of above effects)	0.7	1.3

Source: FTI analysis

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