157 group
Furthering Education & Skills

emsi

A think piece

The economic impact of further education colleges

157 Group

The 157 Group is a consortium of influential further education colleges. Its member colleges:

- are large, with a combined turnover of over £1.5bn, impacting over 670,000 learners, employing 37,000 staff, engaging with over 31,000 employers and contributing £15bn a year to their local economies

- focus on high-level vocational and technical qualifications, including apprenticeships, which lead to employment, and providing pathways to success at this level for all

- are strategic leaders in their locality to ensure an effective skills system that:

  - responds to the needs of local communities and businesses
  - provides a clear line of sight to the world of work for young people and those who are unemployed
  - enables maximum skills development for young people and adults
  - stimulates local economic growth and job creation
  - creates meaningful partnerships with schools, universities, local enterprise partnerships and other stakeholders
  - encourages entrepreneurship, resilience and strong leadership.

The 157 Group aims to represent its members and colleges more widely in:

- policy influence
- thought leadership
- practice improvement.

It works in partnership with other colleges, employer umbrella organisations, thinktanks, national and regional bodies involved in education, the government and its agencies, and aims to ensure that the practitioner voice is heard loud and clear in policymaking circles.

Economic Modelling Specialists International (EMSI)

EMSI turns labour market data into useful information that helps organisations understand the connection between economies, people and work. Using sound economic principles and good data, it builds user-friendly services that help educational institutions, workforce planners and regional developers (such as local enterprise partnerships) build a better workforce and improve the economic conditions in their regions.

www.economicmodelling.co.uk

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Foreword

It is sometimes uttered as a truism that education is a worthy thing in its own right. We know intuitively that learners benefit from education in a variety of ways. But the contributions of the educational institutions which deliver those benefits are less well understood.

Further education colleges in England, for example, are trusted institutions in their local communities and educate more than 1.8 million people a year. Every penny invested in their work must have some form of return, but, until fairly recently, it has been hard to quantify.

The 157 Group has teamed up with Economic Modelling Specialists Intl (EMSI) to present this summary of work undertaken with many colleges over the past few years to try and identify the tangible benefits colleges bring, not only to individuals, but to the economy more broadly.

EMSI has been conducting economic impact studies for colleges around the globe for over 15 years, firstly in the US and then in the UK from 2008. What these studies consistently find is that the value colleges bring to their communities far outweighs most people's expectations – including the colleges themselves. Of course the value colleges bring to the lives of learners and to their communities is far broader than economic impact alone. Nevertheless, since the ultimate purpose of colleges is to train people in the skills that are needed in the workplace, economic impact is a vital measure of success.

The reputation of the sector in the media and often in political circles is hardly glowing. Indeed, the sector is often looked upon negatively, particularly in the current climate of public spending thrift. But this perception is simply not borne out by EMSI's research. On the contrary, its studies consistently find that colleges give good value to a number of stakeholders: good value to learners, good value to businesses, good value to communities, good value to society, and good value to taxpayers too.

By quantifying the value of individual colleges, the research shows just how crucial the further education sector is to local economies, and ultimately to the national economy. Make no mistake: FE is a serious sector with serious value. Any government that is serious about driving growth needs to treat the sector with the respect its economic impact deserves.

Sarah Robinson

Sarah Robinson OBE
Chair
157 Group

Andy Durman
Managing Director
EMSI UK

The economic impact of further education colleges

How can a college's impact be calculated?

When you stop to think about what colleges are and what they do, it becomes instantly clear that they are bound to have a significant effect on their local economies.

For one, colleges are usually among the biggest employers in their town or city, often employing hundreds or even thousands of staff. Second, most colleges are one of the biggest hubs within their town or city, attracting hundreds if not thousands of learners. And third, because the business of colleges is to train people in skills that will help them gain useful and sustainable employment, their impact is bound to be far-reaching, affecting the lives of learners, employers and society long into the future.

Calculating this impact is a complex business, yet the general principles of what is being measured can be broken down into two basic parts:

- First, a college's value can be seen in terms of the direct monetary impact it has on its local economy as a result of its existence. This is calculated using an **impact analysis**.
- Second, a college's value can be seen in terms of the long-term benefits it brings to a variety of stakeholders. This is measured using an **investment analysis**.

Impact analysis

An impact analysis is useful in calculating additional monies generated in an economy due to colleges. To accomplish their mission of serving students, colleges employ staff and spend money for facilities and supplies. Colleges attract non-local students who bring new monies to the regional economy. Most importantly, students leave the colleges with new skills, making them better trained employees. This in turns boosts the productivity of their employers.

The impact analysis also captures the effect of the spending by colleges and their students on other industries within the regional economy – in other words, the multiplier effect. This provides a total gross impact from the colleges. However, while this is a useful figure, it does not tell the whole story because it does not take into account, for example, how money spent by the colleges would have otherwise been spent in the region. After applying such counterfactual measures, we arrive at a net impact, or the amount of additional income generated in a regional economy that exists because the college exists.

A crucial part of the impact analysis is a calculation of 'added workforce skills'. This measures the economic contribution made by a college's students who find employment in the college area after leaving, and so represents the increased economic growth that past and present learning is producing each year.

Investment analysis – benefits for learners, society and taxpayers

With an investment analysis, the aim is to calculate the benefits a college brings to learners, society and taxpayers. For each of these groups, the costs – direct costs and 'opportunity costs' – are first calculated. So in the case of learners, for example, direct costs will relate to expenditure like fees, equipment and books, while the opportunity costs are the money they could be earning if they had entered the workforce instead of attending college.

On the opposite side of things, the benefits a college brings to these groups is also calculated. So in the case of wider society, for instance, this will include added income produced by a more skilled local population and workforce (i.e. higher wages, higher local spending etc), and social savings, which are the corollary of education (such as lower levels of ill health, lower levels of crime, lower requirement of state benefits).

This creates a benefit-cost ratio. So, for instance, in calculating the costs and benefits to taxpayers, we might end up with a ratio of 5.5, which basically means that for every £1 taxpayers invest in a college, they will get £5.50 in return through things like an increased tax base from more highly skilled workers, and avoided social costs directly attributable to the taxpayer.

Where would we be without further education colleges?

If your local further education college announced that it was closing down, how much effect do you think this would have on your community and its economy? Would it harm local businesses? What about the effect on young people? And how about society as a whole?

Over the past few years, research into the economic value of colleges has consistently shown that colleges add a lot of value, not just on their immediate business community, but also on the lives of learners and society as a whole. Colleges generate a wide array of benefits, many of which are not fully appreciated: learners benefit from higher lifetime earnings; society benefits from avoided social costs; taxpayers benefit from an expanded tax base; local businesses benefit from increased consumer spending; local employers benefit from a more productive local workforce.

It can be tempting to see colleges simply as teaching and training centres and to neglect these wider effects. Certainly most people probably do not see them as an essential part of the economic lifeblood of their communities. However, economic impact studies have consistently dispelled this view. Time and time again colleges have been shown to be far more than centres of learning. They are an integral — even essential — part of local and regional economies, contributing to the growth of those economies, improving the lives of young people and adults by increasing their employability, and training a workforce in the essential skills that the local business community needs to prosper.

By measuring the benefits that colleges create for their local economy, learners, and society, value can be quantified and real numbers put in the place of speculation. We offer a trio of examples:

- The first looks at an individual institution: Ealing, Hammersmith & West London College
- The second looks at an aggregate study: The Sheffield City Region Colleges
- The third focuses on Hull College Group.

In all three cases, the impact of and the value offered by these colleges – and by implication the FE sector as a whole – is manifest.

157 Group

A sample of economic impact studies undertaken in 157 Group colleges shows that the average impact of a college on the regional economy is £550m (please note: this must be taken with the caveat that these studies were conducted over a number of years and across different regions, and so this figure, along with the three mentioned below, is an approximation and not an exact measurement).

In addition to the impact on the regional economy, the studies show investment benefits to three cohorts: learners, society and taxpayers. The averages from the studies undertaken with 157 Group colleges show that:

- Learners receive an average 11.2 per cent return on their investment in terms of higher future earnings
- Society receives an average 12.6 per cent return on its investment in terms of an expanded tax base and reduced social costs
- The taxpayer receives a 12.3 per cent return on its investment in terms of returns to the exchequer.

While the crucial value of colleges is the impact on learners and the power to shape the rest of the lives of individuals, these studies show that the monetary value of colleges to the local economy is also substantial.

> **“What are the figures telling us? Quite simply, they show us that the FE sector is a vital part of the economic fortunes of their local and regional economies, and by extension that of the nation’s economy as a whole. Or to turn it around and answer the question that we began the previous section with, if colleges across the country were to close, given the impact seen in these three examples alone, can there be any doubt that the effects would be catastrophic?”**
>
> Dr Lynne Sedgmore CBE, executive director, 157 Group

Case study: Ealing, Hammersmith & West London College

An economic impact study conducted on behalf of Ealing, Hammersmith & West London College in 2014 found that the college has a huge effect on the west London region. Among other figures, the study revealed that:

- Every £1 that learners invest in their education at Ealing, Hammersmith & West London College yields £4.20 in higher future wages (an average annual return of 15.9 per cent on their investment)
- Society will receive £3.70 in benefits in return for every £1 invested in Ealing, Hammersmith & West London College (an average annual return of 16.6 per cent on investment)
- Taxpayers see an average annual return of 17.7 per cent on their investment in Ealing, Hammersmith & West London College – significantly higher than the Treasury’s Green Book target of 3.5 per cent return for public investments
- Total income created in the regional economy as a result of Ealing, Hammersmith & West London College is £505.9 million each year
- Total added income created by the college and its learners is approximately equal to 0.4 per cent of the total economic output of the west London area in 2012–13, representing approximately 16,729 average-wage jobs.

Case study: Sheffield City Region Colleges

If anyone had any doubts that colleges are of great benefit to local and regional economies, the study commissioned by the Sheffield City Region Colleges – a group of 10 colleges across South Yorkshire – should settle the matter. The study found that between them the colleges make the following contribution to the Sheffield City Region:

- Every £1 that learners invest in their education at the Sheffield City Region Colleges yields £6.20 in higher future wages (17.3 per cent annual return on their investment)
- Society will receive £5.80 in benefits in return for every £1 invested in the Sheffield City Region Colleges (18.2 per cent average annual return on investment)
- Taxpayers see an average annual return of 11.8 per cent on their investment in the Sheffield City Region Colleges
- The economic contribution of the Sheffield City Region Colleges to the local business community in the Sheffield City Region is £1.8bn each year
- Total added income created by Sheffield City Region Colleges' learners is equal to 2.5 per cent of the total economic output of the Sheffield City Region and represents approximately 76,472 average-wage jobs.

Case study: Hull College Group

Independent research into the impact of Hull College Group found a huge contribution to the regional economy and to the learners who attend. Detailed research by EMSI found that the group's total contribution to the economy of Hull and the East Riding of Yorkshire is £517m.

The study found that:

- The £517m contributed by Hull College Group to the region's economy equated to £1 in every £20 spent in the region
- This impact is the equivalent to that of 23,000 jobs on average wages
- This financial impact took into account the accumulated total of the spending of Hull College Group's 1,600 staff, spending by students and the spending on goods by the colleges, as well as the addition of students who stay in the region to work and boost the output of local companies.
- Overall, taxpayers' money invested in Hull College Group is returned many times over.

Where is the impact felt?

So far we have seen that the FE sector plays a much more vital role than it is usually credited with. How vital this role is can be seen even more clearly through an aggregate study. A nationwide study has yet to be carried out in the UK (although national studies for Wales and Scotland are in production); however, a study carried out in the US in 2012 produced some remarkable findings. For instance, it was found that the net total impact of community colleges on the US economy in 2012 was $809bn – equivalent to 5.4 per cent of the nation's gross domestic product (GDP).

No doubt if a similar study were to be conducted on the FE sector in the UK, it would produce equally substantive results. However, the purpose of researching the impact of colleges is not really about aggregating numbers across the sector, impressive as they may be. Rather, the key to understanding college impact can be found at the micro level. What these studies consistently show is that colleges have a huge impact on their local economy. As a result, they must occupy a central place in all strategic planning that seeks to revitalise local and regional economies.

Localism and regionalism

Localism and regionalism have been prominent themes in Westminster over the past few years. David Cameron used the concept in his vision of the 'Big Society' in 2010, and the Localism Act was passed the following year. In his 2012 report, *No Stone Unturned in Pursuit of Growth*, Lord Heseltine stated that, "We must reverse the long trend to centralism ... Policies that are devised holistically and locally, and which are tailored to local circumstances, are much more likely to increase the economy's capacity for growth."

There is, then, a big attempt to drive the country towards localism, which is seen as key to revitalising the broader national economy. This is where the FE sector has a substantive role to play. The traditional view of colleges solely as places of training and learning does not do them justice. In view of the impact colleges already have, we suggest it would be more appropriate to see them as economic hubs at the heart of each local economy. Better still, they can be thought of as *social enterprises* impacting the economy, empowering learners and benefiting a whole range of stakeholders across society.

Of course none of this is intended to say that colleges have "made it" and can rest on their laurels. Impressive as the results of the impact studies are, the point of them is not for colleges simply to prove their worth to the local community. Rather, the point is that it provides a basis for them to begin thinking about how they can increase their impact on their local economy, and it also provides a foundation for discussions with key players within the local economy on how they can work together to achieve growth.

We cited the Sheffield City Region Colleges as an example of the kinds of impact colleges are having on their area, and they are also a good example of how quantified impact can be used to facilitate a discussion between local stakeholders. After the results of the study were published, the Sheffield City Region Colleges Principals' Group invited a number of key local representatives – including major local employers; funding bodies (Skills Funding Agency and Education Funding Agency); universities; the local enterprise partnership (LEP); the Chamber of Commerce; MP representives; and the Association of Colleges – to discuss the findings.

The discussions centred around issues such as:

- how colleges can work in partnership with the LEP to identify suitable skills investment opportunities and to positively engage with economic development planning
- how the investment risk for employers can be reduced when they employ staff if they better understand the returns on investment gained from training
- how the study findings can be used to encourage more investment support from local industry
- in what ways the findings can be used to support the local funding of skills, by evidencing the clear economic impact of investment in education.

Of course different discussions in different regions will throw up a variety of questions and issues. However, the point is that in quantifying the impact of a college or group of colleges on the community, local stakeholders can see clearly not only just how vital colleges are to the local economy, but also how working more effectively with them is essential to achieving future growth.

"The localism and regionalism agenda rightly recognises local and regional growth as key to increased national economic prosperity. Since the economic impact studies confirm that colleges play a vital role in fostering local and regional growth, we can confidently affirm that the sector as a whole is vital to national prosperity. Or to put it another way: investment in FE is an investment in the economic future of our country."

Dr Lynne Sedgmore CBE, executive director, 157 Group

Next steps

As we move into a new parliamentary cycle, the national economy is sure to be one of the biggest challenges facing the new government. But as the drive towards localism and regionalism suggests, it is widely recognised that to have any chance of building a strong and successful national economy, building strong local and regional economies is essential.

As we have seen throughout this report, the FE sector – or more particularly the individual colleges – has a vital part in this. The contribution that colleges make to their community is huge, and much bigger than many would have credited them with. Much of this impact and value goes unseen, but as we have shown, it is very real and it affects a range of people and groups, including local businesses, employers, learners, society and taxpayers.

What this means is that the FE sector is something that a government wanting to build solid and sustainable growth should not ignore, and must not undermine. We would go as far to say that any attempt to foster growth while downplaying an institution that provides so much positive impact to local and regional communities is ultimately bound to fail.

So the question is not whether the FE sector provides value – that much is clear – but how can a sector that is so valuable be harnessed to bring about more prosperity? We would suggest that the new government needs to take the sector more seriously than in the past, recognising its value to the local, regional and national economy, and to set about working with leaders from the sector to develop a broad range of policies that will help foster growth in the long run.

Even more crucially, perhaps, we would also suggest that the kinds of findings shown in the case studies should provide a catalyst for local business leaders and regional growth authorities, including LEPs, to sit down with local college leaders and find better ways of working together to generate more prosperity.

The message is clear: the FE sector is vital to future prosperity. If the government and local and regional bodies are serious about building prosperity at local, regional and national levels, the FE sector deserves to be – and indeed must be – seen as a serious and long-term partner in all their planning.

157 Group members

- Barnet and Southgate College
- Bedford College
- Belfast Metropolitan College
- Birmingham Metropolitan College
- Blackpool and The Fylde College
- Chichester College
- City and Islington College
- Coleg Cambria
- College of Haringey, Enfield and North East London
- Cornwall College
- Derby College
- Ealing, Hammersmith & West London College
- Highbury College Portsmouth
- Hull College Group
- Leeds City College
- Leicester College
- Newham College
- North East Scotland College
- St Helens College
- Stoke on Trent College
- Sussex Downs College
- The Manchester College
- The Sheffield College
- Trafford College
- Walsall College
- Warwickshire College.

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