



How Much is Too Much?

Driving down the cost of creating a
job in Wales from £50,000 to £5,000



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1. Prologue

It's Tuesday 2nd October and Jane Hut, Finance Minister announces the Welsh Government's new draft budget for 2012-13. The Minister proudly outlines an additional £175m in capital investment coming in over the next two years to support strategically important projects throughout Wales, creating or supporting up to 3,000 jobs.

This includes:

- £65m for improving roads & tunnels
- £30m for hospitals
- £25m for schools & colleges
- £10m in 2014-15 for high-speed broadband
- £13m for capital investment in Flying Start.
- £12m to expand the Welsh Housing Partnership
- £10m domestic energy efficiency
- £10m to support a programme of vital flood and coastal defence improvements

The presentation is concluded by the Minister saying that:

"Our number one priority is to deliver a Budget for Growth and Jobs which will create a more prosperous Wales, by encouraging economic growth and creating and sustaining jobs."

Although these infrastructure projects are undoubtedly important to their respective communities both in terms of the function they fulfill and the much needed jobs they create, are there any other additional mechanisms Welsh Government could utilise to generate further employment that don't require such eye-watering sums of money?

"Our number one priority is to deliver a Budget for Growth and Jobs which will create a more prosperous Wales, by encouraging economic growth & creating and sustaining jobs".

Jane Hut, Finance Minister

2. Can It Ever Cost Too Much To Create A Job?

Whilst job creation is understandably a top priority for the Welsh Government and many of the infrastructure projects the Minister is funding are undeniably worthy causes, but could it be that in our eagerness to kick-start the economy we may be overpaying?

Is £58,000 too much to create a job?

Although there are other sustainable benefits to this Welsh Government infrastructure investment programme over and above mere job creation, boosting employment is the main driver for going ahead right now. If one divides the total investment (£175m) by the target number of jobs it aims to create (3,000) a cost per job figure of £58,000 is calculated. As one cynic recently remarked, “At £58,000 a job, would it not be cheaper in the long run for the Minister to simply just give these people a job in the Welsh Government?”.

Joking aside, the unfortunate truth is that this cost per job may actually turn out to be higher. Recent “jobs created” studies on similar infrastructure investment programmes across the UK have often been forced to officially downgrade their jobs created claims because they were originally too optimistic.

Calculations relating to the projects’ direct employment and in-direct employment are notoriously complex and easy to get wrong.

However, assuming the jobs forecast is reasonably accurate, at a time when budgets are under more pressure than ever before, does £58,000 cost per job created represent a good investment for Welsh Government? Is that just too much given the current state of the economy?

How does that compare with what others are paying for their jobs? What “cost per job” levels are the “better performing” economies achieving?

What about the multiplier effects from secondary impacts like reductions in benefits, increased “tax take” plus greater disposable income spent in local communities?

Perhaps we should really be considering the very real political cost of doing nothing?

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3. Cost Per Job Created

3.1 What does good look like in other regions of the UK?

Finding a way of stimulating job growth whilst minimising debt and maximising Return On Investment is not just a challenge for Wales, it is a challenge for all Governments and all economies.

In May of this year the National Audit Office (NAO) challenged Business Secretary Vince Cable as to whether money was being wasted on the flagship initiative “Regional Growth Fund”.

This £2.4 billion UK Government Scheme was designed to create private sector jobs in areas that were previously Public Sector dependent. The NAO found that whilst the average cost per job created was £33,000, the watchdog said the cost could vary from anywhere between £4,000 to a staggering £200,000.

By means of a best practice UK benchmark, data gathered by Centre For Cities would show that the “Regional Growth Fund” is currently averaging out at

about £26,000 per new direct job created. This figure is also broadly consistent with the average cost per job across all investments calculated in The Department for Business Innovation and Skills (BIS) review of the now disbanded Regional Development Agencies (RDAs) across England. Interestingly, when this same BIS study just considered cost per job purely for capital / “place based” / infrastructure based programmes this figure leapt up to £63,000. In this respect, the recent Welsh Government’s investment of £58,000 looks fair value.

It is worth noting that the best performing cost per job strategies involved directly supporting those businesses with real growth potential. The best performing cost per job initiative the BIS study found was a high growth business support programme which achieved an impressive £8k cost per job; although it is fair to say that the world economy was far more buoyant 5 years ago.

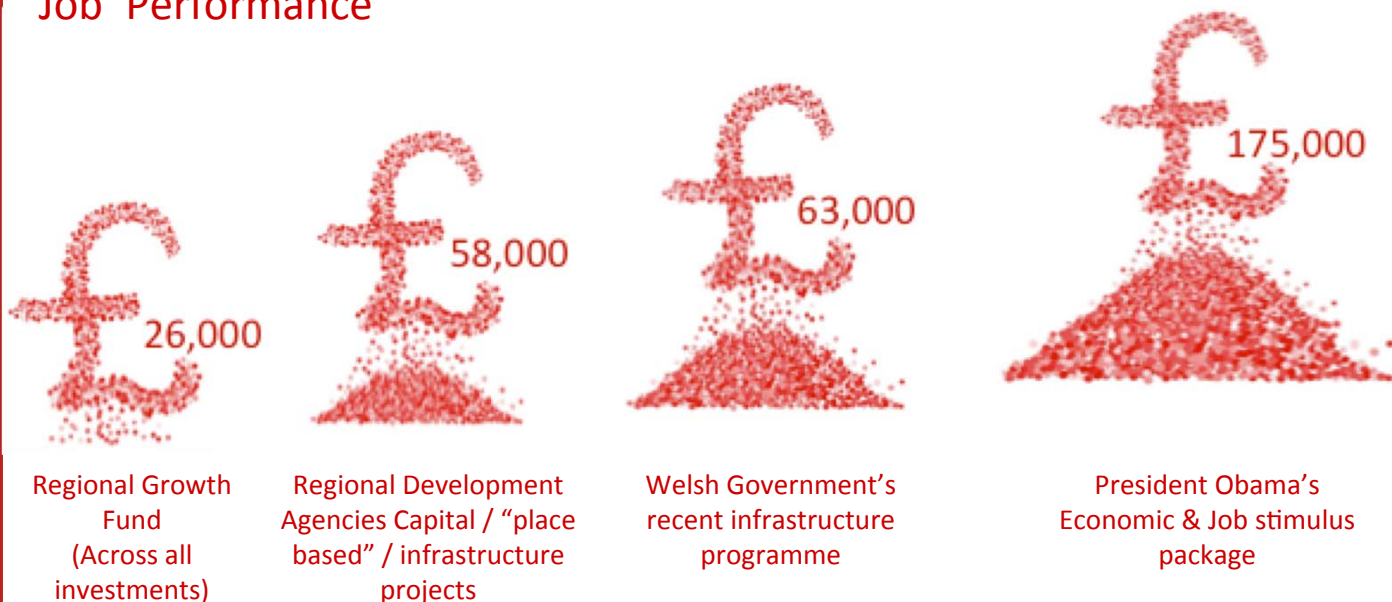
3.2 What can we learn from overseas economies in relation to cost per job?

Looking overseas at those economies that are performing slightly better than our own like the USA provides us with no obvious exemplar initiatives. Whilst he was re-elected, President Obama’s recent “economic and job stimulus package” did very little to help his campaign. As his opponents’ supporters were only too quick to point out, even the three economic Advisors handpicked by the President himself found that his “stimulus” package had only added or saved 2.4 million jobs.

Whilst this sounds impressive, the overall cost of the stimulus package was estimated at \$666 billion. The overall cost per job figure to US taxpayers equated to \$278,000 or approximately £175,000. This led to some mischievous critics to highlight the fact that the US Administration could have simply written a celebratory bonus cheque for \$100,000 to everyone whose employment was allegedly made possible by the “stimulus” and taxpayers would still have come out \$427 billion ahead!



Recent Initiatives To Boost Employment And Their 'Cost Per Job' Performance



3.3 What about investing in programmes that encourage people to start their own business?

Whilst films about the founders of Facebook making millions and programmes showing the local guy bravely pitching to the Dragons Den panel make popular viewing, we should not fool ourselves that they are doing anything more than fuelling the myth of entrepreneurship. Unfortunately, whilst these start up stories appeal to our love of the heroic, they ignore the fact that even with sizable chunks of support from the Welsh Government the vast majority of new business starts will never make it to their 3rd birthday and even fewer will create job growth of any significance.

Studies looking into the Return On Investment of Government funded Generic Business Start Up initiatives across UK and USA actually make a compelling case not to invest in encouraging people to start up their own business:

- Survival rates of new business starts is horrific. About one in every three will not survive 12 months and about 75% will fail within three years.
- New naïve entrepreneurs typically pick markets that are the easiest to enter but they are also the most difficult to survive & thrive in.
- In some UK regions, artificially stimulating new start ups has led to cannibalisation of existing job creating firms.

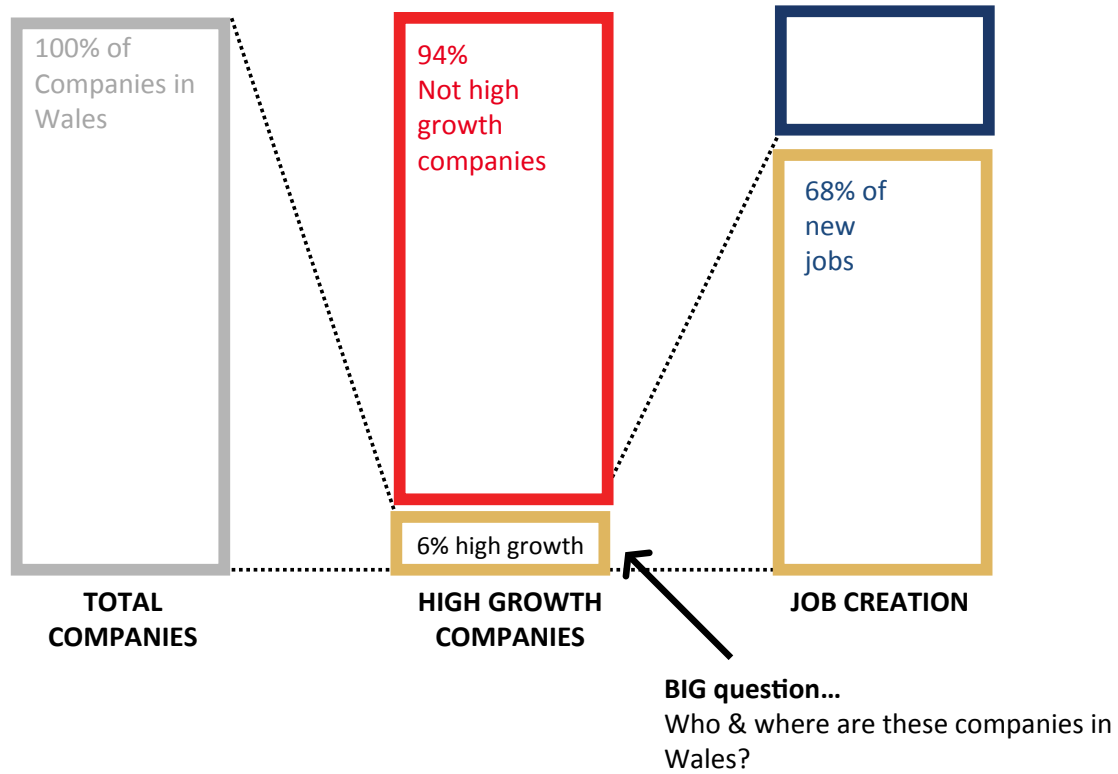
- The Unemployed are most likely to take up new "business start up" incentives but evidence shows that they tend to perform worse than people who quit their jobs. So policies designed to increase the total number of new businesses disproportionately attract the worst entrepreneurs.
- The new jobs that are created in typical new starts tend to be less well paid, are more likely to be part time and statistically less likely to survive compared with an existing business.

Studies like these merely serve to support the findings in the recent NESTA report "The Vital 6%", which recommends that Governments looking to stimulate job growth should:

"Focus economic policy on promoting innovation on the small number of companies with high growth potential (the vital 6%), rather than broadly based business support programmes for new start-ups and SMEs. It goes on to highlight "This is not an elitist policy: rather, it is the best way of generating employment and opportunity."

NESTA would be encouraged to see that Welsh Government recently commissioned a High Potential Start Up Business Support Programme, although they may still question the validity of investing scarce resources into what is colloquially known as the "Generic Business Start Up" initiative.

The Vital 6% Concept



3.4 What about investing in support for the handful of large Welsh based multi-nationals?

Recent announcements from steel giant Tata to cut 580 jobs in Wales serves as a stark warning for those relying on the larger global organisations to provide the spark for economic growth.

Hope is not a strategy. The irony is that in the current economic climate instead of creating jobs,

these multinationals are more likely to shed jobs and when they do, it tends to be in high painful numbers.

Whilst much more can and should be done to Account Manage these organisations and re-connect the relatively small number of large multinationals located in Wales to their locally based suppliers, we cannot and should not rely on them to lead the job generation agenda.

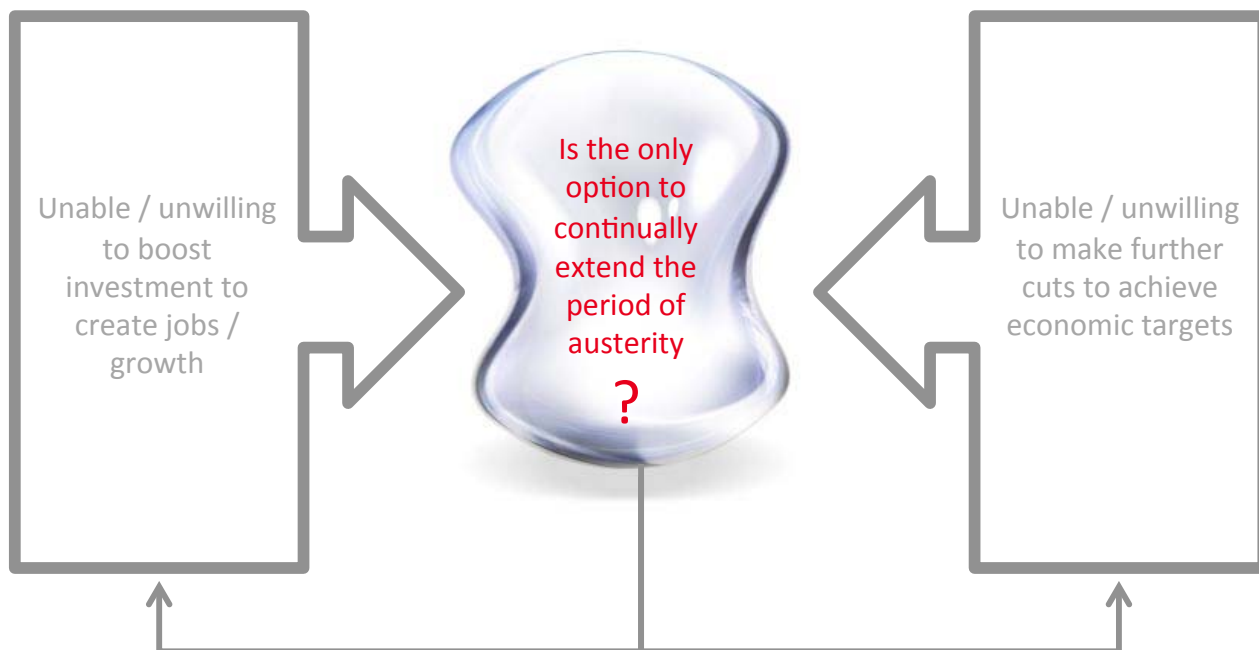
3.5 What can we conclude?

Clearly stimulating sustainable jobs in any region is not easy. It's easy to fail, even if like President Obama you're prepared to throw vast amounts of money at the problem. The challenge however, is that Policy Makers at all levels of Government, national and regional, are increasingly expected to take a more proactive stance to generate jobs in their region.

A strategy of just "sitting on your hands" is not acceptable.

To add extra pressure, these big investment decisions are now being made in a "gold fish bowl" environment where every penny is scrutinised and questioned like never before.

The Government's Economic Growth Challenge "Squeezing the bubble"



4. What If We Could Slash The "Cost Per New Job Created" In Wales From £58,000 to £5,000

What If?

there was another way to create these much needed jobs? Not necessarily to replace the capital infrastructure approach but one that could supplement it. Not one that required greater investment but one that required less; in fact much, much less?

The impact of this fresh approach would mean that the 3,000 jobs created in Wales that recently cost Welsh Government £175 million through the Capital Infrastructure approach could be achieved under this alternative at just under £11 million. Alternatively, given the job generation powers of this alternative strategy, the same £175 million investment may in theory have injected well over 40,000 much-needed jobs into our flagging economy.

What If?

we ensured that the quality and value of those jobs created, were at rates far in excess of the current average job in Wales in terms of its Gross Value Added (GVA). In fact, what about three times more than the current average GVA per job in Wales?

What If?

the supplier of this initiative was so convinced that they could deliver on these claims that they were willing to enter a "performance-related" partnership with Welsh Government such that a proportion of the fee is paid only when these ambitious claims are truly delivered on?

5. Less “what if?”. More “why not?”

The reality is that whilst the answers to these questions seem too good to be true, these bold claims are actually realistic, deliverable and eminently achievable.

We know that, because they are exactly what Winning Pitch recently delivered on the North West Development Agency’s (NWDA) £12 million “High Growth Business Support Programme”. It is also worth highlighting that after reviewing this programme’s success and despite savage budget cuts, BIS have decided to invest an unprecedented £200 million into exactly this type of business support model. Just like the NESTA report recommended and the NWDA programme delivered, BIS’s “GrowthAccelerator” Service will uniquely focus solely on those businesses in England that can demonstrate they have both the capability and aspiration for high growth.

Winning Pitch is a lead consortium partner on this recently launched “GrowthAccelerator” service. For our part, we are pioneering its development and delivering the service across the North of England. We are also now following up enquires from curious overseas Government Agencies who are keen to explore how this ground breaking cost-efficient “job generator” model could work for them.

An overview of the North West Development Agency’s “High Growth Business” Programme that acted as the catalyst for this breakthrough business support model is outlined overleaf.

Winning Pitch believes the current economic climate in Wales demands a fresh game-changing business support model totally focused on high growth and job creation. One that matches the visionary nature of the ambitious businesses it seeks to support. This programme concept offers a powerful, specialised, tested format that will help unlock exponential company growth and boost jobs into the economy at a cost that simply can’t be ignored.

Case Study: High Growth Business Support Programme



Background to the programme

This £10 million Programme was specifically designed to deliver business growth and job creation within the North West region of England through targeting support solely at those businesses with the potential to grow rapidly. It therefore focused the high-value specialist support on just 1,600 businesses rather than the 200,000 who make up the region's total business stock. The programme was free of charge to join, but only those who could demonstrate that they had both capability and aspiration to grow rapidly were asked to join. Participating businesses came from a diverse band of sectors across the region and ranged from high potential start ups to mid size businesses looking for their next big growth breakthrough. The majority of participants were mid-sized companies who had previously often been missed through other support initiatives.

A key part of this approach involved mapping and identifying those businesses who had the potential to grow rapidly and then supporting them with truly specialist Coaches trained in helping firms overcome the most common business growth constraints.

The Programme started in September 2009 and ran for 2 years with investment from both the NWDA Single Programme and European Regional Development Fund (ERDF). The operational delivery and project management of the whole Programme was contracted out to Winning Pitch. The programme support package included specialist onsite 1-2-1 coaching, group workshops and online support.

Key outputs:

The final NWDA Programme Evaluation Report states that the two-year programme featured 1,662 participating businesses across the region supported by a pool of 120 specialist Coaches.

These businesses created 2,239 jobs at a rate of just £3,660 cost per job. More than half of these jobs were created by the "top performing third" of businesses and in this sub-section cost per job reduced down further to just £2,500.

The Gross Value Added (GVA) per job created was £90,000. This compares extremely favourably when benchmarked against the average GVA for employed people in the UK at £52,000 and just £34,000 in Wales based on 2010 data.

An earlier mid-term Programme Evaluation Report written in 2010 by Economic & Social Development specialists EKOS Ltd had also highlighted a number of stand-out findings:

- The "run-rate" of job creation at the time the study took place was hitting 200+ new jobs every month
- The programme has significantly lower cost per job than the national average and the types of job created are higher value
- There is a good indication that the programme is having a direct impact on high growth business start-ups across the North West region
- Over and above the actual jobs created, the number and quality of future jobs as projected also offer excellent value for money

6. Policy Recommendation

If the Welsh Government's number one priority is genuinely "to deliver a Budget for Growth and Jobs which will create a more prosperous Wales, by encouraging economic growth and creating and sustaining jobs" we believe the following Policy Recommendations should be seriously considered:

- 1 Create a High Growth Business Support Initiative similar in thinking and logic to that of the NWDA's High Growth Business Programme or BIS's Growth Accelerator Service. Success leaves clues. In the current "more for less" climate, focusing resources only on those businesses with genuine growth potential is proven to deliver lowest cost per job outputs.
- 2 Recognise that in Wales it may be necessary to avoid the Programme name "High Growth Business Support Programme" due to a failed previous programme that went under this name. Even though that was five years ago, we would recommend a fresh programme title.
- 3 Ensure this new programme is positioned well with other support initiatives offered by Welsh Government. For example, as lead deliverers on the current High Potential Start Up (HPSU) Programme in Wales, Winning Pitch would be just as keen as the Welsh Government to ensure that there is no duplication. It must be clear that the High Potential Start Up programme is for growth-wish businesses under 24 months and this new initiative is to support small businesses over 2 years old and mid-sized firms who have traditionally often been under supported. This programme would fit seamlessly into the strategies outlined by the Sector Teams and International Trade Support Division. Further, it is likely to inject fresh impetus into their plans, motivate Business Development Managers and drive more joined up thinking.
- 4 In order to join the programme businesses would be expected to make a contribution between £500 and £1,500, but even then acceptance on the programme would be strictly limited only to those businesses who could demonstrate they had both the capability and aspiration to fulfill their high growth potential.
- 5 The service should be initiated with a high growth business mapping study to identify those businesses in Wales who are already achieving high growth and those who have the potential. These would be businesses who would form the initial prospect list.
- 6 The proposed service should be tendered on the basis that suppliers share the risk and rewards with Welsh Government. We would therefore recommend that a "performance related" agreement similar in nature to that on the High Potential Start Up Programme is agreed.
- 7 The successful supplier must be able to demonstrate a strong delivery track record of working with these unique types of businesses. They must be able to evidence that they can move these businesses from high growth intent to operational reality to tangible outputs like new jobs created.
- 8 Establish Wales's first High Growth Foundation. This community would act as a natural follow-on vehicle on to which programme participants would graduate. Funded by the private sector, it would enable growth-wish leaders to continue their learning, operate as a true hot spot for investors and ensure the high growth culture is sustained.



Winning Pitch

Winning Pitch

Winning Pitch is a specialist management consultancy that focusses on helping businesses grow faster, stronger for longer. We work directly for both private sector organisations who are strategically focused on exponential growth and public sector bodies committed to unlocking greater prosperity in their local economy.

In recognition of our peerless track record in this market space, Winning Pitch was recently selected by BIS as part of a national consortium to deliver its £200,000,000 “GrowthAccelerator” High growth business support service in England. The service runs from 2011 to 2013 and aims to create 70,000 jobs and £2.8 billion GVA.

Winning Pitch – Wales

Through our Cardiff office, Winning Pitch is a lead deliverer on Welsh Government’s “High Potential Start Up” programme (targeted to create 300 jobs for growth-wish businesses under 2 years old) and both the International Trade Support Programmes. Previously, we have also successfully delivered a number of other initiatives on behalf of Welsh Government linked to the job growth agenda.

- Working with Google and Welsh Government to help roll out the “Getting Welsh Business Online” programme
- Wales’s first High Growth Business “Gazelle” mapping study
- The Technium Challenge – Business Planning Competition
- Winning Business Academy (Wales) Programme for Welsh Government





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