



## Cost to the Economy of Government Policy on Career Guidance: A Business Case for Funding and Strengthening Career Guidance in Schools

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For discussion within Careers England and more widely

The views expressed are those of the author. The paper was first discussed at the Careers England 13-19 Task Group, which encouraged the author to publish it as a Discussion Paper

Comments on this paper are welcome and can be sent to me at [lizzie.taylor@cantab.net](mailto:lizzie.taylor@cantab.net)

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### Summary

Funding for career guidance in state secondary schools was removed in 2011, and other changes to the law were made which reduced its provision in state sector schools. Career guidance in the independent sector remains unchanged. The economic consequence of current policy is an escalating annual cost to young people in reduced and lost earnings, reaching £676m p.a. in 2018 before dropping back slightly to £665m p.a. 2022. **The total cost in reduced and lost earnings to young people in the period 2013 to 2022 is estimated as £3.2bn.** The figures are set out in the accompanying spreadsheet.

To this must be added a number of other costs to the government and UK economy, those of benefits arising from higher unemployment (Job Seekers' Allowance, housing, etc), education funding, social exclusion provision, policing and healthcare. Add to this lost output (profit, corporation tax, etc). These could more than double the above figure.

These effects will apply only to young people educated in the state sector. The 7% of UK pupils in independent schools will be unaffected, as their career guidance funding is unchanged. As a result, social inequality will further increase and social mobility will further decrease.

### Introduction

This paper and accompanying model are prompted by the concern that policy changes taking place in career guidance for young people in schools are harming the UK economy. The changes are:

- Removal of funding for career guidance, particularly face-to-face guidance
- Removal of funding for the provision of career information in schools (careers libraries and online resources)



- Removal of the legal requirement for schools to provide career education (teaching)
- Removal of the legal requirement for schools to provide work related learning at KS4 (work experience, etc)<sup>1</sup>

This has gone largely unnoticed and there has not yet been an estimate of the cost impact and the consequent business case for establishing dedicated funding and statutory support so that schools will implement the new duty effectively. Attempting to quantify this is difficult and assumptions will inevitably be flawed. However, the UK economy will incur real costs as a result of current policy, which is contributing to making the UK a less rather than more economically productive and healthy nation. It is easy to miss or ignore macroeconomic costs because of the difficulty of making robust estimates. Nonetheless the impact will be real and significant and so an attempt must be made.

While career guidance in some schools was not optimal before the change, and some schools are funding good provision now, overall there is a large reduction in the provision of career guidance in schools. The effects of young people receiving less career guidance are assumed to include the following:

- More young people will leave full time education without adequate knowledge of the job market and job-seeking/career management skills. These include: ability to compose a CV and covering letters; to find and approach potential employers; to understand and negotiate recruitment systems such as online competence-based applications, assessment centres, psychometric testing and interviews.
- More young people will leave full time education earlier than they would otherwise have done, often getting qualifications that are lower than optimal for them. This will be because they were not encouraged and guided while at school to explore and find the right education and career path by careers advisors or teachers.
- For the same reasons, a proportion of young people will take the wrong courses at 16 and 18, and drop out of them. They may then wait for the start of a more suitable course or never re-enter education.
- Others who take the wrong course but complete it will either fail to find employment or to find appropriate employment which reflects their potential had they taken a suitable course.
- A proportion of young people will simply take longer to find a job, in the short to medium term.

The spreadsheet model estimates the first of the three main cost elements in the medium term to the UK economy of the impact of the following government policies over the next five years:

Overall the consequences include these three cost elements:

**1. Cost to individual young people** in reduction of earnings potential, loss of earnings and other costs to them<sup>2</sup>

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<sup>1</sup> Note: all these elements are summarized using the term 'career guidance' in the remainder of this note.

<sup>2</sup> Gross earnings are used, and so lost NI and income tax will be excluded from the second category of Cost to the Government/UK Economy, to avoid double counting.



**2. Cost to the government/UK economy** of funding benefits (JSA, housing benefit, etc), extra healthcare, education and criminal justice costs, as well as lost corporation tax

**3. Cost to employers/UK economic output** in lost productivity, because of barriers to recruitment

The model estimates the first of these costs and provides a snapshot of the current cohort of year 7-11 (11-16 year olds), showing what they would have earned with proper career guidance and what effect the policy changes will have on that cohort. Reduced and lost earnings are estimated and these can be adjusted by entering varying percentage values into the model for the numbers leaving education or training before achieving their optimal earning potential, and the numbers failing to gain employment as soon as they would otherwise have done.

The other economic consequences incurred under points 2 and 3 above are not yet included in the model. The cost of unemployment, housing and benefits for higher number of young unemployed are not included, and nor is the cost of lost productivity/output. These can be added into the model and could more than double the costs outlined in the initial estimate. For example, the 2008 NEET cohort were estimated to have cost £13 billion in public finance costs and £22 billion in opportunity costs over their lifetimes. This is not only because of the cost of benefits and lost NI but also the fact that they are five times more likely to have a criminal record (policing and criminal justice system cost), six times less likely to have qualifications (lower potential earnings, loss of tax revenue), and three times more likely to have depression (costs to the NHS).<sup>3</sup>

## Projection

If the policy remains unchanged:

- There are currently approximately 2.7m 11-15 year olds in state secondary education.<sup>4</sup>
- Perhaps only 25%<sup>5</sup> of them will receive a satisfactory provision of career guidance over the next decade.
- The remaining 75% (or 2.02 million) of those pupils will probably receive minimal or no career guidance. This is based on the fact that a year after the new arrangements were announced and

<sup>3</sup> See Audit Commission (2010) *Against the Odds*, Available at <http://www.audit-commission.gov.uk/2010/07/against-the-odds-re-engaging-young-people-in-education-employment-or-training/>

<sup>4</sup> Department for Education 2012 *National Pupil Projections: Future Trends in Pupil Numbers – July 2012* Available at <http://www.education.gov.uk/researchandstatistics/datasets/a00211339/national-pupil-projections-july-2012>.

<sup>5</sup> This assumes that the proportion of schools providing career guidance to pre-2011 levels will rise to 25% from the current 16.5% noted in Careers England 2012 *Careers England School Survey Report 20-11-12* Available at

<http://www.careersengland.org.uk/documents/public/CE%20school%20survey%20REPORT%2020.11.12%20for%20publication%200930%2021.11.12.pdf>



three months after they became law, just under 15% of schools have continued with provision at some level, and perhaps another 10% on top of that will make the effort to do so over coming months.

- On reaching school leaving age (even with extended participation) a proportion of them will then not have the knowledge or direction to continue in education/training, and will leave without fulfilling their intellectual and knowledge-potential, with lower long term earnings and making a less valuable contribution to the UK economy in their working lives.
- On reaching school leaving age another group will take the wrong course at FE or HE level and either drop out or complete the course without entering employment related to that course long term. Of those that drop out, some will await the start of a more suitable course, with the expenditure for the first course having been wasted. Others will never complete their education appropriately.
- On leaving education a further proportion will not have the knowledge, confidence, resources and skills to enter the workforce, either immediately or in the medium to long term, and for those individuals the opportunity and actual costs are enormous.
- A small percentage increase in those not getting a job on leaving education for one or more years will lead to enormous cost increases.
- The figures do not cover the cohort now aged 5-11, and the effect on them as they progress through the education system and leave it will severely compound the problems experienced by the 11-15 cohort covered in this estimate.

## Assumptions

- No change to current government failure to fund career guidance for young people in schools.
- No change to current statutory position on career guidance in schools.
- Approximately 25% of schools may have satisfactory provision while 75% may have significantly less or none. There is no effective sanction for schools which do not make provision under the new legislation and so no incentive for the situation to improve.
- Consequent loss in schools of face to face career guidance will mean fewer young people are able to negotiate entry to the job market at the optimal point. A percentage of the cohort will not gain employment as soon as they otherwise would on leaving education or training and become short, medium or long-term unemployed.
- A number of students will make poor choices for further learning. Some will drop out of courses, and wait for the start date of a more suitable option (having incurred course fees, accommodation and other costs). Others will fail to complete courses and not participate in any further education, having failed to achieve a qualification at the level to which they originally aspired.<sup>6</sup>
- There will be costs (some which can be firmly evidenced and some of which will be softly evidenced) both to them as individuals and to the wider economy. Only some of the actual monetary costs are included. Non-tangible costs such as unhappiness and lower self esteem are

<sup>6</sup> See Audit Commission (2010) *Against the Odds*, Available at <http://www.audit-commission.gov.uk/2010/07/against-the-odds-re-engaging-young-people-in-education-employment-or-training/>



excluded. For example, the health effects of medium and long term unemployment have been described, but the cost to the NHS of these has not been included in the model.

- The current earning profile of the different age groups used in the model reflects the current education/attainment profile young people in the labour market.<sup>7</sup>
- There will be a further cohort of 11-15 year olds coming through schools behind the ones included in the model. Their situation will increase cost further and compound the problems experienced by the earlier cohort.
- The cohort aged 11-15 now will have had partial effects of the old regime at the higher end of the age range.
- Minimal allowance is made for the extension of the participation age in 2013 as the initial impact of that is expected to be weak, because of delay in implementation.

### **Specific assumptions in spreadsheet headings:**

1. Currently 15% leave at 16, 36% at 18 and 49% at 21.<sup>8</sup>

2. There will be a left shift in those figures as a result of the changes in career guidance. This means that more pupils will leave education at 16/17 and again at 18 than would have been the case, and fewer will leave at 21 than would have been the case (with percentages increasing in the left hand columns and decreasing on the right hand column of Table 3 in the model). The figures applied are 17% leaving at 16/17, 38% at 18 (representing a loss to the 16/17 year old leaver cohort of 2% and a gain from the 21 year old leaver cohort of 4%), and 45% at 21.

3. With the changes in career guidance fewer students at each level will leave education and go into paid work. I assume that each cohort suffers a 2% reduction in the number going into paid work.

### **Note also:**

- Independent school pupils are not covered in the model. If these pupils - approximately 7% of UK pupils - continue to receive high quality, well-funded career guidance (which shows no sign of changing), their educational and employment outcomes will increasingly diverge from those in the state sector. This socially advantaged group of students will increasingly leave behind those in the state sector and the result will be an even steeper rise in social inequality and a yet further lessening of social mobility.
- There is a lack of robust data for some of the cost elements, so assumptions have had to be made, as stated in footnotes to this document.
- No allowance is made for inflation.

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<sup>7</sup> ONS (2012) *Annual Survey of Hours and Earnings, 2012 Provisional Results*, Available at <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2012-provisional-results/stb-ashe-statistical-bulletin-2012.html#tab-Earnings-by-age-group>

<sup>8</sup> DfE (2012) *Key Stage 4 and Key Stage 5 Destination Measures: Statistical First Release*, Available at <http://www.education.gov.uk/rsgateway/DB/STA/t001076/index.shtml> and OECD (2012), *Equity and Quality in Education: Supporting Disadvantaged Students and Schools*, OECD Publishing. <http://dx.doi.org/10.1787/9789264130852-en>

The model estimates part of the cost to the first of the following three categories, on whom the cost of lower value and reduced employment fall:

**GROUP 1 INDIVIDUALS: those young people who suffer unemployment, and their families**

Costs being

- loss of gross earnings<sup>9</sup>
- less tangible costs (e.g. loss of future higher earnings arising from lost experience/promotion, etc)
- cost of wasted FE and HE fees for students dropping out of poorly-chosen courses

**GROUP 2 GOVERNMENT: the UK exchequer and ultimately the taxpayer**

The additional cost to the UK exchequer from loss of earnings to the individual

- reduction in tax income and National Insurance receipts<sup>10</sup>
- reduction in corporation tax receipts
- state benefit payments, housing, health and social care
- other costs, such as cost to the NHS of long term mental and physical health problems, and policing/criminal justice system costs from increased offending
- cost of government-funded wasted FE and HE fees for students dropping out of poorly-chosen courses (such as FE courses taken before students turn 19)

**GROUP 3 EMPLOYERS: companies and other organizations**

The additional cost to employers is

- the opportunity cost in lost profit of not being able to employ staff to increase output as required
- cost of management time wasted on fruitless recruitment efforts, emergency outsourcing and agency use, etc

## Conclusion

The average annual cost to individuals in lost earnings alone, before cost to government and employers' lost output costs are added, rises to £676m in 2018 before dropping back again to £665m in 2022. **The total cost in lost earnings in the period 2013 to 2022 is estimated as £3.2bn.**

<sup>9</sup> Expressed in present value without allowance for inflation.

<sup>10</sup> If added to the model in future, these could be based on Income-based Job Seeker's Allowance for those aged 16-24 of £56.25, Institute for Fiscal Studies (2012) *A Survey of the UK Benefit System* [www.ifs.org.uk/bns/bn13.pdf](http://www.ifs.org.uk/bns/bn13.pdf)



One can argue about the detail of the assumptions made in this projection. But the problem is real, whatever the exact size. The model demonstrates that even if policy consequences cause only a small percentage increase to youth unemployment and reduced skills/knowledge-base, the quantifiable costs will be enormous, before the unquantifiable ones are accounted for.

A desirable healthy 'education-to-value flow' could be seen as follows. Strong education and training, which includes career guidance, can lead to good employment outcomes, increased productivity and output at high value levels. These then lead to increased prosperity and this will also feed into higher treasury receipts.

Employers are not getting the young people they need, while young people are not entering the labour market and workforce efficiently or at the optimal skill/knowledge level. The government's current policy is directly contributing to this disconnect and therefore to youth unemployment and loss of UK economic productivity. Other changes making education harder to access for young people, such as raised university fees and removal of EMA, make a toxic mix when combined with loss of career guidance for students in the state sector.

## **Proposed Solution**

The government should act to ensure that all young people are empowered to leave school in a state of employability, by

- Establishing dedicated funding of at least £120m<sup>11</sup>, for career guidance for young people in schools, and this should include face-to-face guidance. Some of the money previously allocated to the Work Programme could be re-directed to this.
- Making career education and work related learning at Key Stage 4 in schools a statutory duty once again (perhaps as part of the Statutory Guidance to underpin the Education Act 2011 duty to secure access to independent careers guidance, as recommended by the Education Select Committee in its January 2013 report).

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<sup>11</sup> See Careers England (2013) *Careers England Policy Commentary 18: Education Select Committee Report on Careers Guidance for Young People*, paragraph 12  
[www.careersengland.org.uk/documents/PublicPolicy%20Commentary%202018.pdf](http://www.careersengland.org.uk/documents/PublicPolicy%20Commentary%202018.pdf)